

# Reintroduction of capital gains tax ruled out <sup>HD 1</sup> <sub>MS</sub>

**"No review of double taxation treaty"**

Special Correspondent

**NEW DELHI:** Turning down the Left parties' demand in the wake of the turmoil in the stock markets, Finance Minister P. Chidambaram on Saturday ruled out reintroduction of the long-term capital gains tax on equity transactions or a unilateral review of the double tax avoidance treaty with Mauritius.

## Assurance to FIIs

At a hurriedly convened press conference here, ostensibly to clear confusion and regain the confidence of foreign institutional investors (FIIs), he said: "There is no intention to reintroduce long-term capital gains tax on securities traded on the stock market... The issue of double taxation avoidance agreement has been debated threadbare. For a host of economic, political and diplomatic reasons, the treaty cannot be reviewed unilaterally."

The Minister's statement came in the wake of the demand by the Communist Party of India (Marxist) for reintroduction of the long-term capital gains tax and dividend tax, apart from reviewing the treaty with Mauritius, which was being used by FIIs for avoiding tax.

## Meltdown in metals

The bear hug of the stock markets in two trading sessions during the week resulted in the Sensex (Bombay Sensitive index) nosediving by nearly 1,300 points. Apart from the meltdown in metals, the slump was primarily on account of the FIIs selling heavily out of a fear that the Central Board of Direct Tax-

es (CBDT) might impose a higher tax on them.

- Chidambaram rejects Left demand
- Fundamentals of economy strong
- Inflation reined in

Mr. Chidambaram reassured the FIIs that there was no question of imposition of a higher tax rate and said their fears were based on "uninformed reporting." The CBDT circular in no way suggested a higher tax.

In fact, it was only an update of the 1989 circular incorporating court judgments of the intervening period and did not even mention the word 'FII.'

Allaying fears about the economy, Mr. Chidambaram said the fundamentals were "very strong" and it did not undergo any change recently, not within the last four days.

"While FIIs sold stocks worth Rs 2,500 crore in the last four sessions, mutual funds bought stocks worth Rs 2,803 crore."

## Why slump in stock markets

The slump in the stock markets was due to the fall in metal prices, the relative attractiveness of other markets and the hardening of interest rates.

As for the economy, he said: "The foreign exchange reserves were at \$163 billion, inflation was reined in below four per cent for several weeks, the manufacturing sector is growing at over nine per cent and monsoon has set in, which is expected to be good."

21 MAY 2006

## ইয়েচুরির দাবি খারিজ করলেন চিদম্বরম

# মূলধনী লাভকর বসচ্ছে না কেন্দ্র

নিজস্ব সংবাদদাতা, নয়াদিল্লি, ২০ মে: শুক্রবারই সীতারাম ইয়েচুরি বলেছিলেন, শেয়ার বাজারে এ বার যে ধস নেমেছে তার জন্য অসুস্থ বাসগস্থীদের দায়ী করা চলবে না।

কিন্তু তারপরেই তিনি যা দাবি তুলেছিলেন, তার জন্য শেয়ার বাজারে আরও ধস নামতে পারে বলে আতঙ্কিত হয়ে উঠেছিল কেন্দ্র। তাই আজই তড়িঘড়ি সীতারামের দাবি খারিজ করে দিয়ে অর্থমন্ত্রী পি চিদম্বরম জানিয়ে দিলেন, দীর্ঘমেয়াদি মূলধনী লাভকর বসানো হবে না। দ্বৈত কর এড়াতে ভারত ও মরিশাসের মধ্যে যে-চুক্তি রয়েছে, তা থেকেও সরে আসবে না ভারত। শেয়ার বাজারে স্থিতি আনতে

এই দু'টি দাবিই জানিয়েছিল সি পি এম। তবে চিদম্বরমের বক্তব্য, অর্থনীতির স্বার্থেই দীর্ঘমেয়াদি মূলধনী লাভকর তুলে নেওয়া হয়। আর দু'দেশে কর এড়ানোর বিষয়টি কূটনৈতিক। সেখানে অর্থ মন্ত্রক কোনও সিদ্ধান্তই নিতে পারে না।

আজই এ ভাবে চিদম্বরমের মুখ খোলা থেকে মনে হতেই পারে, তিনি সীতারামের দাবি খারিজ করতে খুবই ব্যগ্র ছিলেন। কিন্তু, সরকারি সূত্রের খবর, ঘটনা মোটেই তা নয়। সীতারাম কাল এই দুই ধরনের কর বসানোর দাবি তুলেছিলেন দুপুর সওয়া দুটো নাগাদ তাঁর সাংবাদিক বৈঠকে। নড়বড়ে অবস্থায় থাকা শেয়ার বাজারে তার

প্রভাবও পড়েছিল। আজ শনিবার বাজার বন্ধ ছিল। সোমবার বাজার খুললে সীতারামের দাবির পরিপ্রেক্ষিতে বাজারে আরও ধস নামবে বলে সরকার আশঙ্কা করেছিল। তাই সেই সম্ভাবনা অঙ্কুরে বিনষ্ট করার জন্য আজই সীতারামের দাবি খারিজ করে দিলেন অর্থমন্ত্রী।

ঠিক দু'বছর আগে শেয়ার বাজারে ধস নেমেছিল এ বি বর্ধন ও সীতারাম ইয়েচুরির বাজার সম্পর্কে কটু মন্তব্যের জন্য। তখন কংগ্রেসের পক্ষ থেকেও তাঁদের দিকে আঙুল তোলা হয়েছিল। ঘটনাটা যে তাঁদেরও যথেষ্ট চাপে ফেলেছিল, তা সীতারামের গত কালের কথা থেকেই স্পষ্ট। তবে মূলগত ভাবে

বাজার সম্পর্কে সি পি এমের মনোভাব এখনও বদলায়নি। বাজারকে তাঁরা অর্থনীতির উন্নয়নের সচক বলে মনে করেন না। তা ছাড়া তাঁদের ধারণা, কর-কাঠামোর কারণে ভারতে বিনিয়োগ করে সব চেয়ে বেশি আয় হয় বলেই বিদেশি লগিকারী সংস্থাগুলি এ দেশের শেয়ার বাজারে টাকা ঢালছে। কিন্তু যখনই তারা মনে করবে বিপদ আসতে পারে তখনই তারা এ দেশ থেকে টাকা তুলে নেবে এবং বাজার ধসে যাবে।

সেটা যাতে না-ঘটে তার জন্য সরকার চায় বিদেশি লগিকারীদের কাছে এই বার্তা পৌঁছে দিতে যে, ভারতের বাজার নিরাপদ। সে জনাই তড়িঘড়ি আজ মুখ খুলেছেন চিদম্বরম।

21 MAY 2015

# ঐতিহাসিক পতন, সেনসেন্স কমল ৮২৬ অঙ্ক

মুম্বই, ১৮ মে: প্রথম পাঁচ মিনিটে ৫৪২ পয়েন্ট, দুপুরের মধ্যে ৭৩১ পয়েন্ট, বন্ধ হওয়ার ঠিক আগের মুহুর্তে ৮৮৭ পয়েন্ট, দিনের শেষে ৮২৬ পয়েন্ট। এটাই বৃহস্পতিবার সেনসেন্সের ঐতিহাসিক পতনের খতিয়ান। মুম্বই শেয়ার সূচকের যাত্রাপথে এক দিনে এত বেশি পতন নজিরবিহীন। বিশ্ব বাজারের সঙ্গে তাল মিলিয়ে এই পতন: দিনের শেষে

২৪৬ পয়েন্টেরও বেশি পড়ে হয় ৩৩৮৮.৯০। সূচকটিতেই ধস নামতে শুরু করায় বিক্রেতাদের ভিড়ে গাসা স্টক এক্সচেঞ্জে ক্রেতা মুঁড়ে পাওয়াই দুষ্কর হয়ে ওঠে। বাজারে ক্রমেই আতঙ্ক ছড়িয়ে পড়ায় কেন্দ্রও সময়েই বিক্রির হিড়িক খামেনি। অর্থমন্ত্রী পি চিদম্বরম শ্রথম দিকে বাজারের পতনকে তেমন পাতা না-দিলেও পরে তিনি এটিকে 'তৈরি

ভারতের বাজার দ্রুত পড়তে থাকে। বিদেশি আর্থিক সংস্থাকে 'লগিকারী' হিসাবে গণ্য করার কারণে তাদের ক্ষয় মেয়াদি মূলধনী লাভের উপর কর দিতে হয় মাত্র ১০ শতাংশ। নতুন বসজা আইনে এফ আই-কে 'সেনসেন্সকারী'র তালিকায় ফেলে দেওয়া হতে পারে, এই আতঙ্ক বৃহস্পতিবার এসে করে সেন্সর বাজারকে। কারণ সে ক্ষেত্রে ওই কর বেড়ে হবে ৪১ শতাংশ। শঙ্কিত হয়ে শেয়ার বেচে দিয়ে লগি তুলে নিতে থাকেন বিদেশিরা।

আমেরিকায় মুদ্রাস্ফীতির হার সব অনুমান ছাপিয়ে ০.৬ শতাংশ পৌঁছে গিয়েছে, এই খবরে ওয়াল স্ট্রিটে সূচক পড়ে যায় ১.৮৮ শতাংশ। এক দিনে গত তিন বছরে ওয়াল স্ট্রিট এত বেশি পড়েনি পাশাপাশি, মুদ্রাস্ফীতি ঠেকাতে সুদের হার বাড়তে পারে আমেরিকা, এই পূর্বাভাস এশিয়া জুড়ে পতন ডেকে আনে শেয়ার বাজারে। টোকিও-র সূচক পড়েছে ১.৩৫ শতাংশ, জাকার্তা ৪.১৯ শতাংশ, ম্যানিলা ৩.৪৪ শতাংশ। সর্ববৃহৎ পতন ঘটে মুম্বই বাজারেই।

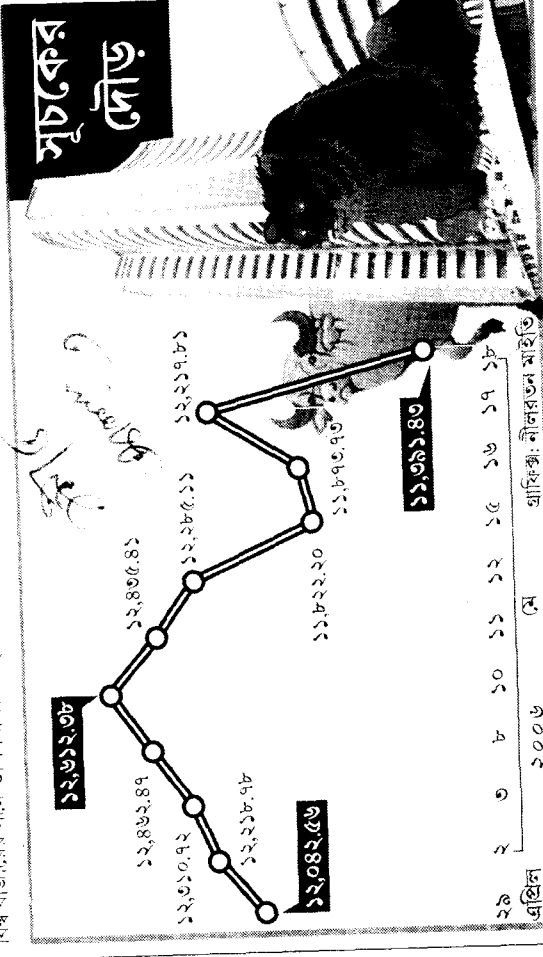
এই পরিস্থিতিতেই অর্থমন্ত্রীর আশ্বাস, "কোনও এফ

আই-কেই সেনসেন্সকারী হিসাবে ধরা হচ্ছে না। তারা যেমন লগিকারী হিসাবে গণ্য হচ্ছে, তাই থাকবে। তুল সংবাদদের ভিত্তিতেই আতঙ্ক ছড়িয়ে এই সঙ্কট তৈরি হয়েছে।" বিদেশি লগিকারীদের ভারতের বাজারে ফেরাতে স্টক এক্সচেঞ্জ বন্ধ হওয়ার পরেই তড়িঘড়ি সাংবাদিকদের সম্মানে এ কথা বলেন। উল্লেখ্য, সকালে ৬০০ পয়েন্ট পড়ার পরে তিনি অবিচলিত ভাবে বলেছিলেন, "বাজারের প্রতিটি নড়াচড়ায় মন্তব্য করতে হবে, এমন বাধ্যবাধকতা নেই।"

উল্লেখ্য, ৩১ মার্চ শেষ হওয়া চতুর্থ ত্রৈমাসিকে টাটা স্টিলের নিট মুনাফা আগের বছরের ওই সময়ের ৯২১.৩১ কোটি টাকা থেকে কমে হয়েছে ৭৯৯.৪১ কোটি টাকা। এই খবর বাজারে আসার পরেই সূচক নোমে যায় দিনের সর্বনিম্ন ১১,৩৩০.৪৫ অঙ্কে, যা আগের দিনের তুলনায় ৮৮৭ পয়েন্ট কম। এ দিন ধাতু ছাড়াও পড়েছে সিমেন্ট সংস্থার শেয়ার।

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# Gas price issue delays pipeline

## India, Pakistan say Iran is quoting a high price for gas; further talks in July

B. Muralidhar Reddy

**ISLAMABAD:** Iran, Pakistan and India on Tuesday failed to make headway on the price quoted by Teheran for the gas Iran intends to supply for the proposed gas pipeline.

The second trilateral joint working group (JWG) on the pipeline which concluded here was of the view that the gas pricing required "further study" and decided to meet in New Delhi in July for further discussions.

At a joint press conference along with delegation heads of Iran and India, the Pakistani Petroleum Secretary, Ahmed Waqar, hoped that the contentious issue of pricing would be clinched at the next meeting.

### Progress of talks

The progress of talks on the proposed pipeline, which has been pending for years, would be watched with interest since the Bush Administration is opposed to the project on the plea that it would not be prudent to pursue it in view of the Iranian nuclear programme.

Pakistan and India have repeatedly maintained that they were pursuing the Iranian pipeline as they required gas to meet their

growing energy requirements and would be guided in their decision on the pipeline keeping in view their respective "national interests."

It was the price factor which was the stumbling block at the last meeting of JWG in Teheran. India and Pakistan believe that Iran is

quoting a high price and in their respective presentations at Tuesday's meeting, they made a case for a "reasonable and affordable" gas price.

The net result of the decision, by the three sides to meet once again in July for further talks on the gas price, is that the project could not

be expected to make any concrete progress for at least another two months.

The two-day meeting of the trilateral working group was attended by representatives of all the three countries.

Pakistan Petroleum Secretary, Deputy Oil Minister of Iran M. H. Nejad Hosseini and Indian Petroleum Secretary M. S. Srinivasan led their respective delegations at the talks.

Atul Aneja

**ABU DHABI:** Afghanistan President Hamid Karzai has approached the Government of the United Arab Emirates (UAE) for participation in the proposed pipeline project that would bring natural gas from Turkmenistan in Central Asia to India. Asked to comment on India's decision to participate in the project, Mr. Karzai, who is on a two-day visit to the UAE, told a group of journalists on Tuesday that the project was "extremely important."

The Afghan President said that he had sought UAE's involvement in the project that envisages the pipeline's transit across Afghanistan and

Pakistan. Pakistan would also be a major consumer of this gas, while Afghanistan would benefit from the transit fee once the pipeline is completed.

The UAE President, Shaikh Khalifa Bin Zayed Al Nahyan said after talks with Mr. Karzai on Monday that his country was ready to offer all assistance that would help Afghanistan achieve security, stability and development.

The proposed Turkmenistan-Afghanistan-Pakistan-India (TAPI) pipeline would pass through the Turkmenistan-Afghanistan border to reach Multan in Pakistan, covering a distance of 1,270 km. Another 640 km would be added to extend the pipeline to India.

## UAE to aid Turkmenistan project

### Draft for joint declaration

In his opening remarks at the news conference the Pakistan delegation leader said that there was broad "convergence" that the gas would be delivered at the respective borders. In other words for Pakistan gas would be delivered at its border on the Iranian side and for India on its border with Pakistan.

The meeting also agreed on appointment of a project coordinator whose job would be coordinate and implement. They also exchanged joint declaration drafts on the pipeline to be signed at the level of Ministers at a later date.

In response to questions on U.S. "pressures," the Pakistan delegation leader maintained that any decision would be made in "national interest".



# Deep Blue pockets: IBM triples its India investment to \$6 billion over 3 yrs



India key to our global market: Kalam with CEO Palmisano

JOHNSONTA

BANGALORE, JUNE 6

THE world's largest IT company IBM will triple its investments in India over the next three years by pumping in \$6 billion towards its India operations, the company's chairman and CEO Sam Palmisano said here today.

Palmisano, in Bangalore to address the largest ever gathering of IBM employees, said the new investments are a sign of the growing importance of India in the company's global strategy for emerging markets.

This tripling of IBM investment in India will ensure that "we make the most of the opportunities to grow this market place, while it also enables IBM to fulfil its vision to become a globally integrated company," Palmisano said.

IBM is currently India's largest MNC employer, with 43,000 employees—a nearly five fold increase from two years ago when the employee count was merely 9000 professionals.

Speaking to over 10,000 IBM employees sitting at the Palace Grounds and beamed into the venue via satellite from other parts of the country, Palmisano said IBM is excited about India. "We see In-

## Top 5 FDIs in India

Total investment announced

- Posco: \$10-12 bn
- IBM: \$6 bn
- Microsoft: \$1.7 bn
- Cisco: \$1.1 bn
- Intel: \$1 bn

dia's role as central to our global enterprise."

The company will primarily invest in India to enhance service delivery capabilities, telecom-related research, development operations, hiring and training initiatives and other community initiatives, IBM India MD Shankar Anaswamy said.

IBM's India revenues recorded a 55% year-on-year growth in 2005, while in the first quarter of the current year the revenues grew by 61% on an annual basis.

About 50 global financial analysts and business partners of IBM were also part of the annual analysts' meet here, being held for the first time outside the United States.

IBM India began operations in 1992 and is the largest country operation outside IBM's US base that employs 140,000 people. In India, the company has employees in 14 cities and 2,500 partners across 40 cities.

# At 8.4%, GDP growth shoots past estimates

## India in China's league; manufacturing back in shape

HT Corporate Bureau  
New Delhi, May 31

THE INDIAN economy is on fire. India is now a 700 billion dollar economy. CSO data released on Wednesday revealed that India's January-March quarter growth clocked an extremely healthy 9.3 per cent, which analysts said strengthened the case for higher interest rates but may not turn the tide for its falling markets.

Taking the cue from Asian market weakness, despite the gangbuster numbers, the BSE Sensex however, was poleaxed by an intraday fall of 675 points to eventually close at 388 points. The soft rupee hit a three-year low of 46.57 to recover to 46.35 at close as bond prices edged lower. The BSE Sensex has seen a 13.4 per cent erosion from its top this month or 1,644 points. Former RBI Governor and MP Dr Bimal Jalan told HT, "These figures are most encouraging and welcome, but we need to work harder to sustain it. The Sensex is an indicator and serves us a timely warning, that is why consistency is critical." Rajiv Kumar,

Chief Executive of ICRIER said, "Finally, it is nice to be in China's league, but I am truly surprised with the upsurge reported in financial services, trade, communications and hotels and restaurants. The good thing is that we are witnessing by far the longest boom in manufacturing in India. Remember that a few years back, we had consigned it to the twilight zone."

Mahesh Vyas, Executive Director, CMIE, was quick to add, "These numbers are certainly higher than expected."

For the year, GDP growth is pegged at 8.4 per cent, up from an earlier estimate of 8.1 per cent. The expansion rate in the fourth quarter of India's financial year, which runs from January to March, was higher than the revised October-December rate of 7.5 percent and above analysts' forecast for 7.8 per cent annual GDP growth.

"The view that interest rates should rise gets reinforced on the back of the current growth data," said Amogh Deshpande, senior analyst at Securities Trading Corporation of India. "(A) further increase in rates will not impede growth, though inflation in asset prices remain a matter of concern."

The good news didn't end there. Per capita income in real terms is expected to be up at Rs 21,005 as against earlier estimates of Rs 20,813 as compared to Rs 19,649 for the previous financial year of 2004-05. The growth rate in per capita income has been estimated at 6.9 per cent during 2005-06. "India has a large current account deficit and although the GDP numbers were better than expected, this will exacerbate the current account deficit," said Callum Henderson, Head of Currency Strategy at Standard Chartered. The central bank next reviews interest rates on July

### Wheels are turning fast

Sharp increase in farm and manufacturing sector has surprised the nay-sayers. While these two sectors out of the twilight zone, downside in mining remains a worry



- Agriculture sector growth bounced back to **3.9%** from a meagre **0.7%** in 2004-05
- The manufacturing sector grew by **9.0%** from **8.1%**
- Trade, hotels, transport and communication expanded by **11.5%** from **10.6%**
- Financial services, insurance, real estate and business services grew by **9.7%** in 2005-06 as against **9.2%** a year ago

- The government had expected electricity, gas and water supply to grow at six per cent, but the actual growth was **5.3%** during 2005-06.
- **0.9%** growth in mining sector against **5.8%** last year.
- construction by **12.1%** as against **12.5%** in 2004-05

**“In short, medium and long terms, the country requires larger capital investment, which is only possible if reforms continue at steady pace. Foreign capital goes to that country where government carry out reforms and that's the road we have taken so far. — Chidambaram”**



25, and analysts say an expected increase this week in government-capped retail fuel prices as well as the rapid economic expansion makes a 25 basis point rise in the benchmark short-term rate to 5.75 per cent highly likely.

"The GDP growth is a pleasant surprise," said Andrew Holland, Executive Vice-President of Research at DSP Merrill Lynch. "But the markets have already factored this in and right now investors are more concerned about the falling rupee, which could push up interest rates," he said.

The surprise in the data was the gain in farm output. Agriculture—which accounts for a fifth of GDP—grew an annual 5.5 per cent in the

January-March quarter, compared with a downwardly revised 2.9 per cent in the previous three-month period. Manufacturing output, which accounts for nearly 15 per cent of GDP, expanded 8.9 per cent, faster than a revised annual growth rate of 8.3 per cent in October-December. Montek Singh Ahluwalia, Deputy Chairman of Planning Commission, told reporters that there was no evidence of overheating in the economy and there was further scope for expansion in manufacturing.

P. Chidambaram warned that high oil prices might increase inflation and said Asia's third-largest economy needed more reforms to sustain growth, particularly in mining and electricity.

24 MAR 2006

THE HINDU

# Law to up investment in SBI arms

**HT Corporate Bureau**  
New Delhi, March 23

THE UNION Cabinet approved on Thursday the introduction of legislation in Parliament that will allow investors to buy more shares in the subsidiaries of the State Bank of India (SBI), the country's largest bank. This triggered a major buying spree in SBI and its three listed associates.

Shares in SBI, which owns between 75 and 100 per cent of its seven associate banks — State Bank of Mysore, State Bank of Patiala, State Bank of Travancore, State Bank of Bikaner and Jaipur, State Bank of Indore, State Bank of Saurashtra and State Bank of Hyderabad — closed at Rs 974.17, up Rs 26.10, almost 2.75 per cent.

Commerce and industry minister Kamal Nath said the SBI Subsidiaries Amendment Act had the Cabinet approval, and a finance ministry official said it would raise the cap on in-

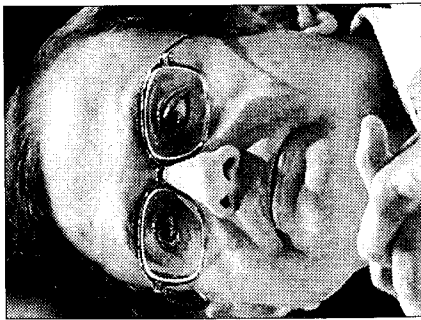
dividual shareholding in the associates and also allow SBI to cut its stakes in them. The subsidiaries would also see their authorised capital increased, the official added. Of the seven, only three are listed. Shares of State Bank of Mysore jumped 20 per cent to Rs 5,481.40, State Bank of Travancore was up five per cent at Rs 3,654, and State Bank of Bikaner & Jaipur rose five per cent to Rs 3,690.55 (Rs 100 share).

The existing provisions of the Act will be amended to comply with certain guidelines issued by the SEBI Depositors Act, and also to enable the seven subsidiary banks to augment their ability to access the capital market for raising funds to provide for easy transferability and trading in their shares.

According to the existing provisions of the SBI (Subsidiary Banks) Act, there is no uniformity in the authorised capital of the subsidiary

## Tackling liquidity crunch

AFTER A meeting with the PSU as well as private sector bank chiefs, finance minister P. Chidambaram on Thursday said that Reserve Bank of India, after consulting the five-member IBA committee, would take some action by month-end to ease the present liquidity crunch. Chidambaram also said that a sub-committee of five IBA members had been formed and it would meet RBI governor Y.V. Reddy early next week to tackle the shortage of money in the system. After a meeting with the committee on March 28, Reddy will make a detailed policy announcement on March 31, said IBA CEO H.N. Sinor.



banks. However, provision exists that the SBI can, with the approval of the RBI, authorise a subsidiary bank of the SBI to increase or reduce its au-

thorised capital. The existing provisions also lay down that the authorised capital shall be divided into shares of Rs 100 each.

"It is a long-awaited decision," Arun Kejriwal, strategist at KRIS Research, said. "We have been waiting for the last three years," he added.

Individual investors in the SBI subsidiaries can now hold no more than 200 shares, but analysts expect the amendment to allow this cap to be raised and for shares to be held without physical certificates, as they are now. "Changes in the Act would increase liquidity and attract more investors' participation," one banking analyst, who declined to be identified, said. SBI's unlisted associates are State Bank of Hyderabad, State Bank of Indore, State Bank of Patiala and State Bank of Saurashtra.

Meanwhile, SBI chairman A.K. Purwar said the SBI subsidiaries would be ready to come out with their IPOs within the next 18 months. Purwar said each subsidiary could raise capital up to Rs 500 crore from the market.

# ক্ষমতা বাড়ছে আর বি আইয়ের ব্যাঙ্কিং ক্ষেত্র সংস্কারের লক্ষ্যে আইন বদলাতে সায় কেন্দ্রের

নিজস্ব সংবাদদাতা, নয়াদিল্লি, ২৩ মার্চ: ব্যাঙ্কিং ক্ষেত্র সংস্কারের লক্ষ্যে আজ দু'টি গুরুত্বপূর্ণ আইনি সংশোধনে সায় দিল কেন্দ্রীয় মন্ত্রিসভা। এগুলি হল: রিজার্ভ ব্যাঙ্ককে আরও স্বাধীনতা দিতে এবং তার নিয়ন্ত্রণ ক্ষমতা আরও বাড়াতে ব্যাঙ্কিং আইন (সংশোধনী) বিল অনুমোদন করা। পাশাপাশি, স্টেট ব্যাঙ্ক অব ইন্ডিয়া সহযোগী ব্যাঙ্কগুলি যাতে মূলধনী বাজার থেকে পুঁজি সংগ্রহ করতে পারে, তার জন্য এস বি আই (সহযোগী ব্যাঙ্ক) আইন সংশোধনেও অনুমোদন দিয়েছে মন্ত্রিসভা।

রিজার্ভ ব্যাঙ্ককে বাড়তি ক্ষমতা দিতে ব্যাঙ্কিং রেগুলেশন (অ্যামেন্ডমেন্ট) বিল, ২০০৫-এ বেশ কিছু পরিবর্তন আনা হয়েছে, যার মাধ্যমে শীর্ষ ব্যাঙ্কের কর্মকাণ্ড আরও বিস্তৃত হবে। এই বিলটি লোকসভায় আনা হয়েছিল ২০০৫ সালের ১৩ মে। তা খুঁটিয়ে দেখার জন্য স্থায়ী কমিটিতে পাঠানো হয়। সংসদীয় মন্ত্রী প্রিয়রঞ্জন দাসমুন্সি বলেন, “কমিটি কিছু কিছু ক্ষেত্রে পরিবর্তনের কথা বলেছে।”

স্টেট ব্যাঙ্কের সহযোগীগুলি যাতে বড় অঙ্কের পুঁজির সংস্থান পায়, সে দিকে লক্ষ রেখেই এগোচ্ছে সরকার। এই লক্ষ্যেই এস বি আই সাবসিডিয়ারি অ্যাক্ট ১৯৫৯-এর সমন্বয়পযোগী পরিবর্তনের বিষয়টি আজ কেন্দ্রীয় মন্ত্রিসভা

অনুমোদন করেছে। ফলে এস বি আইয়ের সাতটি সহযোগী ব্যাঙ্কের প্রতিটি গড়পড়তা ৫০০ কোটি টাকা পর্যন্ত মূলধন বাজার থেকে সংগ্রহ করতে পারবে। বাজারে শেয়ার ছাড়লে ছোট লগিকারীদের সুযোগ দিবে শেয়ার বিভাজনও করতে পারবে ব্যাঙ্কগুলি। সহযোগী ব্যাঙ্কগুলি হল স্টেট ব্যাঙ্ক অব হায়দরাবাদ, পাতিয়ালা, সৌরাষ্ট্র, বিকানির ও জয়পুর, ইন্দোর, মহিশুর ও স্টেট ব্যাঙ্ক অব ত্রিবাঙ্কুর।

আজ বিভিন্ন রাষ্ট্রায়ত্ত্ব ব্যাঙ্কের কর্তাদের সঙ্গে বৈঠকে বসেছিলেন অর্থমন্ত্রী পি চিদম্বরম। ওই বৈঠকে ঠিক হয়েছে ব্যাঙ্কগুলির শীর্ষ কর্তাদের পাঁচ জনের প্রতিনিধিদল রিজার্ভ ব্যাঙ্ক কর্তৃপক্ষের সঙ্গে সুদের হার ও আর্থিক সংস্থানের হালহকিকত নিয়ে আগামী সপ্তাহে আলোচনায় বসবেন।

টেলিকমে বিদেশি লগ্নি নিয়ে। টেলিকম সংস্থাগুলি বিদেশি লগ্নির নির্দেশিকা মানার জন্য চার মাস সময় পাবে। ওই লগ্নির সীমা ৪৯ থেকে ৭৪ শতাংশে নিয়ে যেতে মন্ত্রিসভা এই অনুমোদন দিয়েছে।

মালয়েশিয়ায় ব্যাঙ্ক। মালয়েশিয়ায় যৌথ উদ্যোগে একটি ব্যাঙ্কিং কোম্পানি গড়ার ব্যাপারে রিজার্ভ ব্যাঙ্ক আজ সায় দিয়েছে। ব্যাঙ্ক অব মহারাষ্ট্র, ব্যাঙ্ক অব বরোদা এবং ওরিয়েন্টাল ব্যাঙ্ক এই যৌথ উদ্যোগে সামিল হবে।

24 MAR 2005

ANANDALOKA

# Parliament nod for Union budget

Lawyers, doctors to be brought under service tax net, says Chidambaram

Special Correspondent

**NEW DELHI:** Parliament on Tuesday approved the Union budget for 2006-07 with the Rajya Sabha returning the Finance Bill after Finance Minister P. Chidambaram said the thrust of the "balanced" budget was to stimulate domestic industry, expand capacity and "incentivise sectors that needed to be incentivised" to make the country a global manufacturing hub.

Responding to queries on the Finance Bill-2006-07 during a discussion in the House, the Finance Minister said in due course lawyers and doctors would also be brought under the service tax net just as chartered accountants had been in this budget. "Barring very essential services, all services would have to be brought under the services tax net," he added.

## New scheme

He said the Government would soon come out with a new

## New scheme soon for unemployed graduates

scheme for unemployed graduates wherein they would be trained in filling out Income Tax Return forms that were being made simpler than the present 'sara' form. Called "IT Return Preparers", such trained youth would be paid a stipend.

Mr. Chidambaram said despite the "scathing attacks" on the budget proposals by former Union Finance Minister Yashwant Sinha (BJP), the economic growth was a record 7.5 per cent this year and expected to grow by 8.1 per cent next year. "I can expect some generosity from the Opposition. It cannot be that every page of the budget proposals was wrong. The United Progressive Alliance Government must be doing something right for the economy to grow so well," he said, adding that he had the full

backing of Prime Minister Manmohan Singh. Dr. Singh was present in the House at the time.

Mr. Chidambaram said he had revisited exemptions in the Income Tax Act and while he had not taken away any exemption, he hoped to achieve a gross tax revenue rate of 20 per cent next year.

Referring to members' concern about taxing cooperative banks, Mr. Chidambaram said the cooperative sector was in a "shambles" and the Government had come out with a Rs. 14,500-crore package to restore life to the cooperative credit structure next year. "Once they are required to file properly audited statements, they would not get away from maintaining proper accounts."

He maintained that excise duties were a measure to boost the domestic industry. With the excise duty cuts he had given to the small cars industry, he expected India to become a hub for manufacture of small cars. The relief

given to man-made textiles last year, for instance, had resulted in a boom in the sector.

Mentioning the relief in duty given to packaged food items, he said with the proposed Goods and Services Tax in 2010, all rates would converge.

Earlier, moving the Finance Bill, Mr. Chidambaram said the buoyancy in tax revenues "vindicated" the axiom that a moderate and stable tax regime was good for the economy. As a result, the Government refrained from making changes on the direct tax side (personal income tax and corporate tax) while in indirect taxes it had continued with "measured steps" to bring customs duty in line with ASEAN rates. The Finance Bill had been passed by the Lok Sabha on Monday after the Finance Minister announced some excise and customs duty concessions. With the Rajya Sabha returning the Bill now the three-stage budgetary exercise has been completed.

# New parameters for defining BPL category

Special Correspondent

**NEW DELHI:** The Centre has notified 13 new parameters for defining Below Poverty Line (BPL) category of people in the country. It has done away with the earlier definition based on food calories or annual earnings.

The revised definition is based on landholding, type of dwelling, clothing, food security, hygiene, capacity for buying commodities, literacy, minimum wages earned by the household, means of livelihood, education of children, debt, migration and priority for assistance. The matter

had been stayed by the Supreme Court and has only now been vacated, Union Minister for Rural Development Raghuvansh Prasad Singh told the Rajya Sabha on Tuesday.

Replying to a discussion on the functioning of his Ministry, Mr. Singh said the earliest definition of BPL in 1979 was based on consumption of 2,100 calories in urban areas and 2,400 calories for rural areas.

In 1991-92, a household with an annual income of Rs. 11,000 was placed under the BPL category. In 1997, this criterion was raised to Rs. 20,000 per annum.

In 2002 it was based on the 13 parameters. All village panchayats would have to display the number of BPL at the panchayat-ghars or schools for "transparency".

## Not happy with allocation

Although the rural development allocation had been raised from Rs. 24,000 crores to 31,000 crore, he agreed with members that he was not happy with the allocation made to the Rural Development Ministry.

Saying that the two major problems facing the country were poverty and unemploy-

ment, he said if the country could address the problem of unemployment then poverty would get solved.

The commitment of the Ministry was to eradicate poverty by the end of the 11th Five Year Plan in 2012.

He said the National Rural Employment Guarantee Programme "guarantees" 100 days of employment during the lean season. So far in 181 districts in 17 States 2.23 crore people had registered. The scheme was not envisaged for the entire year "because we do not want agricultural activity to suffer."

22 MAR 2006

# Steps soon for capital account convertibility

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2/3

## The rupee is now convertible on current account

P. K. Bhardwaj

**NEW DELHI:** Finance Minister P. Chidambaram on Monday said the steps for capital account convertibility of the rupee would be announced in the next few days.

"The Prime Minister made a very definitive statement day before yesterday and Reserve Bank and the Government would announce the steps (for capital account convertibility) in a few days from now," he said at a Confederation of Indian Industry function.

• **"Full float of the rupee will facilitate its conversion into foreign currency and vice versa"**

• **It is believed the move will help attract greater investments**

The Finance Ministry and Reserve Bank had discussions on the issue. The announcement could have been part of the Union budget 2006-07 but it was deferred, as it could have overshadowed other fiscal policy an-

nouncements.

Full float of the rupee, which Dr. Singh favoured in Mumbai on Saturday, would facilitate conversion of the rupee into foreign currency and vice versa. This, it is believed, would help attract greater investments.

At present the rupee is convertible on current account, basically for trade purposes.

While seeking a road map on capital account convertibility, Dr. Singh said India's position, internally and externally, had become far more comfortable in the last two decades.

21 MAR 2006

THE HINDU

# Rupee to be fully convertible

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19/3  
J. B. A. A.

Press Trust of India

MUMBAI, March 18. ~ Favouring a move towards fuller capital account convertibility in the context of changes over the past 20 years, the Prime Minister today asked the finance ministry and the Reserve Bank of India to work out a roadmap to attract more foreign investments.

"Our position, internally and externally, has become far more comfortable. I will request the finance minister and the RBI to revisit the subject (of capital account convertibility) and come out with a roadmap based on current realities," Dr Manmohan Singh said, while releasing the third volume of the RBI history here.

Elaborating on the need to move towards capital account convertibility within a transparent framework, Dr Singh said progress would facilitate the transformation of Mumbai into not only a regional but also a global financial centre.

He said there were multiple options possible for such a centre, including a special economic zone, and "I am confident that we can make steady but firm progress in that direction". He also wanted the state government to provide an enabling environment, particularly adequate infrastructure.

After the liberalisation process started in 1991, the rupee has become fully convertible on current account, mainly for trade.

But movement on rupee convertibility for capital purposes has been slow as the RBI adopted a cautious approach, especially after the 1997 East Asian currency crisis that led to

## New company law

NEW DELHI, March 18. ~ The government will soon bring in comprehensive company legislation, replacing the 50-year-old archaic law to promote greater transparency and efficient governance, the Prime Minister announced here today. SNS

(Details on page 9)

flight of capital in those countries. Dr Singh, however, said the cautious approach adopted by the government in moving towards full capital account convertibility has been vindicated in the light of the financial crisis in many emerging economies in the late 1990s.

The Prime Minister said the cautious approach of preferring FDI flows to short-term debt was warranted, as capital flows exhibit a highly cyclical pattern.

"It is necessary to attract a stable component of capital flows while de-emphasising volatile components," he said.

There was a need to build foreign exchange reserves beyond the traditional import-cover criterion, he said, adding that India's policy of building adequate forex reserves contributed to financial stability and added to the economy's resilience.

India's external sector management has been one of the more notable successes of macroeconomic management, he said.

The widening current account deficit was not a cause for concern, as it was in consonance with the resurgence of investment demand in the economy, he said.

19 MAR 2006

THE ECONOMIST

# Trilateral talks on pipeline begin

## Project framework, price main areas

Atul Aneja

DUBAI: Officials from India, Iran and Pakistan have begun trilateral official level talks on the 2,100-kilometre Iran-India gas pipeline. Iran's Deputy Oil Minister Hadi Nejad-Hosseinian said: "The project framework and the price of gas" were the main areas of discussion. Secretary-level discussions on "technical" issues will continue on Wednesday.

Mr. Nejad-Hosseinian said: "In case of an agreement, a memorandum will be written and submitted to Oil Ministers of these countries." Last week, Petroleum Secretary M. S. Srinivasan, who leads the Indian delegation, said gas prices would be one of the key areas of discussions in Teheran. "The gas price issue has never come up so far into the focus of talks. We have sounded out the idea with Pakistan and it will be the key issue of discussion."

He also stated that the three delegations would try and prepare a "project structure." An attempt would be made to finalise a draft framework agreement for the trilateral ministerial meeting planned in April.

### Cost of pipeline

It is estimated that the tri-nation pipeline would cost around seven billion dollars. India has plans to get 60 million cubic metres of gas initially and raise consumption to 90 million cubic

India, Iran and Pakistan discussing possible routes for pipeline

• Any proposed pipeline will have to cross Baluchistan province

metres in the next few years. Pakistan has an estimated initial demand of 30 million cubic metres, which could double by 2013. Meanwhile, Minister of State for Petroleum and Natural Gas Dinsha Patel informed Rajya Sabha that India, Iran and Pakistan were discussing three possible routes for the pipeline, all of which pass through Pakistan's Baluchistan province.

### Route configuration

"As regards the route of the Indo-Iran pipeline, three alternatives, namely, northern, central and southern routes are being discussed."

"Each route configuration will be studied in detail with respect to its merits and demerits during the preparation of the detailed project report." The Minister observed that the proposed pipeline "would have to cross Baluchistan in any logical option." However, there would be adequate safeguards in the project structure to ensure safe and secure gas supplies. India, Iran and Pakistan have earlier held bilateral discussions on the project under the framework of two separate Joint Working Groups.

15 MAR 2006

THE HINDU



# Economy on growth path: Chidambaram

State Governments urged to  
spend funds from day one

Special Correspondent

**NEW DELHI:** Finance Minister P. Chidambaram on Monday urged the State Governments to spend the funds allocated to them from the first day of the new fiscal year rather than wait till the last few months and build up huge unutilised funds.

Replying to the discussion on the budget in the Rajya Sabha, the Minister pointed out that the States were sitting on a huge cash balance due to increased devolution of funds.

In the first year of the United Progressive Alliance Government, Rs. 74,000 crore was devolved to States; that was raised to Rs. 94,400 crore in 2005-06 and it went up to Rs. 1,13,448 crore in 2006-07. "If [the] States spend [these funds] they will meet targets which means more money in the hands of the people," he said.

While agreeing that the education and health sectors needed more allocation, he said the absorption capacity of the ministries concerned and the States was "limited." This was reflected in unutilised funds. Ministries not spending 66 per cent of allocation in the first nine months would be penalised, he said.

## "Help agriculture"

Noting that economy was on a "virtuous growth path," he said agriculture should be given a helping hand and nothing should be done to hinder investment in the area. "If the economy continues to grow at eight per cent and revenue at the current level of 20 per cent, there will be enough space for resources in the social sector," he said.

Charging the previous National Democratic Alliance Gov-

ernment with "losing a lot of ground in the management of the economy," Mr. Chidambaram said the UPA Government had retrieved the lost ground. "Fiscal deficit that climbed to 6.2 per cent in 2001-02 has been brought down to 4.1 per cent — the same level as that of 1996-97. Next year's target is 3.8 per cent," he said.

Pointing out that the revenue deficit could be wiped out by expenditure control and revenue enhancement, he said the Government was exercising tight control. While farm income could not be taxed, the bulk of the revenue came from the industrial or manufacturing sector. The Government could do more for farmers on the credit front, but with the interest rates harder and inflation at four per cent, it was not possible now, Mr. Chidambaram said. Even for extending the concession proposed in the budget, the banks would have to be "persuaded," for which he had convened a meeting on March 23.

On revival of public sector units, he said that so far a provision of about Rs. 6,100 crore had been made for revival of 13 properties that had been granted approval by the Cabinet and the Cabinet Committee on Economic Affairs.

The House returned by voice vote the Appropriation Bills, 2006.

Earlier, Communist Party of India (Marxist) leader Sitaram Yechury said the potential for implementing programmes for the welfare of people was not fully utilised in the budget proposals. "What is worrisome is that growth is at the expense of equity. The proposals avoid taxing the rich while squeezing the vast mass of Indian people."

# PC takes Left to China

IAN S & S N S

NEW DELHI, March 10. — Finance minister Mr P Chidambaram today made an earnest request to his Communist allies to throw away ideological blinkers.

Replying to the discussion over the general budget, Mr Chidambaram said, "I beg you to throw away ideological and political blinkers and support the endeavours that can create employment also", in an apparent reference to the Left Front.

The Left, which extends support to the Congress-led United Progressive Alliance government from outside, has been protesting against many of its economic policies.

Reminding his Communist allies that they should learn from China's experience, the finance minister, perceived often as the target of the Left's attack, said: "Every second toy in the world is made in China. Every third shoe is made in China. Why can't we emulate these examples."

Taking a snipe at the Communists, Mr Chidambaram said: "Where is the ideology in making a pair of shoes? Where is the ideology in manufacturing a toy?"

He assured the MPs that India's growth rate would continue at the present rate. "I am betting on growth," the

I beg you to throw away ideological and political blinkers and support the endeavours that can create employment also



minister said, adding that the services sector would grow, thanks to the human resource in the country.

Pointing out that the UPA government could collect more taxes without introducing new ones, he said: "Let us continue to make sure nothing comes in the way of growth."

The Opposition in the Rajya Sabha today charged the government with neglecting agriculture and not taking initiatives to tackle unemployment in the budget proposals for 2006-07.

Participating in the debate on the budget, Mr Vikram Verma of the BJP said that despite the government's claim of growth in agriculture, the country had been forced to import foodgrain at a price which was much higher than what was paid to farmers for their produce.

## SC gives ex-judge a week to vacate house

NEW DELHI/KOLKATA, March 10. — The Supreme Court today asked former judge of Calcutta High Court Mr Bhagabati Prasad Bandyopadhyay to vacate his Salt Lake City residence, the land for which was allotted by the state government, and to accept Rs 30.15 lakh as construction expenses for the already-auctioned

house. A Bench of Justice HK Sema and Justice AR Lakshmanan asked Justice Bandyopadhyay to accept the amount without any demur and vacate the house within a week of the receipt of money, failing which the government would initiate eviction proceedings against him.

The former judge's family

said they would abide by the court order.

"We came to know that our petition was not accepted by the court," his son, Mr Bhaskar Prasad Bandyopadhyay said, adding: "The state government has been ordered to pay us the money within seven days and we will have to vacate the house". — PTI/SNS

11 MAR 2006

THE STATESMAN



Mr Speaker, Sir  
It is my privilege to present the Budget for the year 2006-07.

### I. AN OVERVIEW OF THE ECONOMY

2. Twenty months ago, when I presented the first Budget of the UPA Government, I asked Honourable Members - and the people of this country - to walk with us on the path of honour and courage. The final report card on the first year of the UPA Government is out, and there are reasons to celebrate. According to the Central Statistical Organization (CSO), the growth rate in 2004-05 was 7.5 per cent, with the manufacturing sector growing at 8.1 per cent. More importantly, at current market prices, gross domestic saving increased to 29.1 per cent of GDP and the rate of gross capital formation increased to 30.1 per cent of GDP. I have no doubt in my mind that these results were due to the political message conveyed by the National Common Minimum Programme (NCMP); the perceptive leadership of the Prime Minister, Dr. Manmohan Singh; the policy changes made by the Government; and the palpable confidence of the Indian people that their future is in safe hands.

3. I am happy to report that the prospects for 2005-06 are just as good, if not better. This year can be characterized as the best of times and the worst of times. Nature has not been kind to us. Natural calamities took a heavy toll on human lives besides causing extensive damage to crops, roads, houses, and the infrastructure. Government provided immediate interim relief; this was followed by releases from the CRF and NCCF totalling Rs. 6145.37 crore to date. Obviously, this assistance will not be enough. The Planning Commission will draw up a programme for rebuilding the damaged infrastructure, and I wish to assure the House that the Government will provide the money for rehabilitation and reconstruction.

4. It was also the best of times. Government has been able to fulfil the first NCMP obligation of ensuring a high growth rate. According to the CSO's advance estimates, GDP growth is likely to be 8.1 per cent this year, with the manufacturing sector expected to grow at 9.4 per cent. Agricultural growth has bounced back to 2.3 per cent and, barring mining, all other sectors are performing satisfactorily. Inflation, as on February 11, 2006 was 4.02 per cent. Non-food credit is growing by over 25 per cent. A large part of the credit goes to our farmers, workers, service providers, traders and business persons, and I would urge the House to join me in saluting them.

5. The assault on poverty and unemployment continues. I believe that growth is the best antidote to poverty. The GDP growth target for the Tenth Plan was set at 8 per cent. Thanks to three years of 7.5 per cent plus growth, it is possible that the overall growth rate will be 7 per cent. In recent speeches, the Prime Minister has raised the bar to 10 per cent, and the Government is determined to take the country to that high growth path. Growth will be our mount; equity will be our companion; and social justice will be our destination.

### II IMPLEMENTING THE NCMP MANDATE

6. Our success this year is due to our unrelenting emphasis on fiscal prudence through enhanced revenues and expenditure control, monetary stability and management of the external debt. However, our success should not tempt us to stray from this path, and we shall not do so.

7. One of the important NCMP obligations was to focus on agriculture: we have done so, and the output of food grains is expected to be 209.3 million tonnes, which is about 5 million tonnes more than in the previous year.

8. The NCMP mandates the Government to promote employment: while creating permanent and quality jobs in the productive sectors, for providing immediate relief to the poor, the National Rural Employment Guarantee Scheme was launched on February 2, 2006. In the current year, under a clutch of schemes including the Food for Work programme, a sum of Rs.11,700 crore is expected to be spent on rural employment.

9. The NCMP mandates the Government to enhance investment: the investment rate has increased steadily from 25.3 per cent in 2002-03 to 30.1 per cent in 2004-05. Several indicators point to continued buoyancy of capital formation in the economy.

10. The NCMP also mandates the Government to augment infrastructure. 5,063 MW of capacity will be added to power generation in 2005-06, and during the Tenth Plan period the total addition is estimated at 34,000 MW, which is a record. Until December, 2005, under the Rajiv Gandhi Gramen Vidyutikaran Yojana, contracts have been placed for projects spanning 95 districts and covering 41,461 un-electrified and 9,379 electrified villages. Work is on at full steam on the Golden Quadrilateral (GQ) and the North-South, East-West Corridors. As against 1.86 kms per day completed prior to May, 2004, the schemes are progressing at the rate of 4.48 kms per day. 96 per cent of the GQ will be completed by June, 2006 and the Corridors will be completed by end 2008. There is also substantial and visible progress in improving our ports, airports and rural roads.

11. As the year draws to a close, I look back with satisfaction that the promises we made to the common citizen - the aam admi - have been substantially redeemed.

### III BHARAT NIRMAN

12. I would like to make special mention of Bharat Nirman. It epitomizes the UPA's approach to governance. It is a paradigm shift that will enable us to use the resources thrown up by the engine of growth for building infrastructure and bringing basic amenities to rural India. Honourable Members are aware of the six components of Bharat Nirman and the ambitious targets to be achieved by the year 2009. In the first year of its implementation, 2005-06:

- Rs.944.18 crore has been released so far as grant under the Accelerated Irrigation Beneficiary Programme (AIBP) and the target of 600,000 hectares of irrigation potential is expected to be created this year.
- Against the physical target of 56,270

habitations, 47,546 habitations have been covered until January, 2006 under the Accelerated Rural Water Supply Project (ARWSP)

- 5,337 habitations were connected under the rural roads programme by September, 2005, and Rs.3,749 crore has been released so far.
- 870,000 rural houses have been constructed and a sum of Rs.2,260 crore has been released till January, 2006.

- The entire allocation for rural electrification of Rs.1,100 crore has been released and the target of covering 10,366 villages is expected to be achieved in the current fiscal.
- 17,182 villages have been provided with a telephone till December, 2005 in the first year of the three year programme.

These numbers are a complete answer to those who scoffed at Bharat Nirman. We are determined to soldier on, and execute the programme in the mission mode. Since the implementation of Bharat Nirman has gathered pace, I propose to extend larger budgetary support to the programme. Including the North East component, as against Rs.12,160 crore provided in the current year, the corresponding budgetary provision will be Rs.18,696 crore in 2006-07, an increase of 54 per cent.

### IV THE FLAGSHIP PROGRAMMES

13. Let me now present an overview of the Budget. Obviously, the bulk of the resources must go to the UPA Government's eight flagship programmes: Sarva Siksha Abhiyan, Mid-day Meal Scheme, Rajiv Gandhi Drinking Water Mission, Total Sanitation Campaign, National Rural Health Mission, Integrated Child Development Services, National Rural Employment Guarantee Scheme and Jawaharal Nehru National Urban Renewal Mission.

14. In 2005-06, Gross Budgetary Support (GBS) for the Plan was Rs.143,497 crore. Of this, support to the Central Plan was Rs.110,385 crore. I propose to increase both allocations substantially. GBS for 2006-07 has been fixed at Rs.172,728 crore, representing an increase of 20.4 per cent. Out of this, the Central Plan will receive a support of Rs.131,285 crore.

15. Education and health will continue to enjoy primacy. For 2006-07, the allocation for education has been enhanced by 31.5 per cent to Rs.24,115 crore and for health and family welfare by 22.0 per cent to Rs.12,546 crore.

16. On the eight flagship programmes, the total allocation in 2005-06 was Rs.34,927 crore. In the ensuing fiscal year, the total allocation will be Rs.50,015 crore, representing an additional of Rs.15,088 crore or 43.2 per cent.

North Eastern Region (NER)  
17. To this, however, we must add the allocation of 10 per cent of the Plan Budget of each Ministry/Department for schemes and programmes in the North Eastern Region (NER). For the flagship programmes alone, this would amount to an additional allocation of Rs.4,870 crore in 2006-07. The total budget allocation for the NER is Rs.12,041 crore which includes Rs.1,350 crore provided to the Ministry of Development of North Eastern Region (DONER). From BE 2005-06 to BE 2006-07, the step up is 18 per cent.

Sarva Siksha Abhiyan  
18. Sarva Siksha Abhiyan (SSA) has recorded remarkable progress in 2005-06 in terms of new schools, additional class rooms and additional teachers. Two independent surveys show that 93 per cent of the children in the age group 6-14 years are in school, and the number of children not in school has come down to about one crore. Recognizing good performance, I propose to increase the outlay for SSA from Rs.7,156 crore to Rs.10,041 crore in 2006-07. 500,000 additional class rooms will be constructed and 150,000 more teachers will be appointed.

19. In 2006-07, we shall transfer Rs.8,746 crore to the Prarambik Siksha Kosh from the revenues raised through the education cess.

### Mid-day Meal Scheme

20. 12 crore children are now covered under the Mid-day Meal Scheme, which is the largest school lunch programme in the world. I propose to enhance the allocation from Rs.3,010 crore to Rs.4,813 crore in 2006-07.

### Drinking Water and Sanitation

21. The target for the current year for drinking water supply will be completed, and 56,270 habitations and 140,000 schools will be covered. Apart from non-coverage, there is the persistent problem of slippage. The strategy to tackle both includes conservation, better operational management, and water quality monitoring and capacity building at the village level. The Government will provide non-recurring assistance of Rs.213 crore in 2006-07 for setting up district-level water testing laboratories and field-level water testing kits. I propose to increase the provision for the Rajiv Gandhi National Drinking Water Mission from Rs.3,645 crore to Rs.4,680 crore next year.

22. I also propose to increase the provision for the Rural Sanitation Campaign from Rs.630 crore to Rs.720 crore in 2006-07.

### National Rural Health Mission

23. The National Rural Health Mission was launched on April 12, 2005. I am confident that in 2006-07 more than 200,000 Associated Social Health Activists (ASHA) will be fully functional and over 1,000 block level community health centres will provide round the clock services. I have increased the allocation for NRHM from Rs.8,553 crore to Rs.8,207 crore for the next year.

24. The WHO standard defining 'elimination of leprosy' is one case per 10,000 population. I am happy to announce that the goal of eliminating leprosy was reached in December, 2005. Continuing the vigorous immunization programme, we hope to eliminate polio too from the country by December, 2007.

### Integrated Child Development Services

25. We have expanded the Integrated Child Development Services (ICDS) scheme and created an additional 188,168 centres. Supplementary nutrition is the most important component of the scheme. Beginning this year, the Centre is assisting the States to the extent of 50 per cent of the actual expenditure incurred for supplementary nutrition or 50 per cent of the cost norms, whichever is less. The cost to the Centre this year is estimated at Rs.1,500 crore, and I propose to increase this assistance to Rs.1,700 crore for 2006-07. The total allocation for ICDS is being increased from Rs.3,315 crore to Rs.4,087 crore.

National Rural Employment Guarantee Scheme

26. I have already referred to the Rural Employment scheme which is the primary instrument to combat rural unemployment and hunger poverty. For 2006-07, the total allocation for rural employment will be

Rs.14,300 crore. Of this, Rs.11,300 crore (including NER component) will be under the NREG Act and Rs.3,000 crore (including NER component) will be under SGRY. Since there is a legal guarantee of employment under the NREG Act, more funds will be provided according to need.

Jawaharal Nehru National Urban Renewal Mission  
27. The Jawaharal Nehru National Urban Renewal Mission was launched on December 3, 2005. For the next year, against the estimated outlay of Rs.6,250 crore, I propose to provide a grant of Rs.4,595 crore. Apart from the four projects, including Mumbai metro rail and Bangalore metro rail, mentioned in my Budget speech last year, the projects under active consideration include projects in Maharashtra, Madhya Pradesh and Gujarat.

28. Planned urbanization can act as a spur to growth, employment and a better quality of life. Government will actively promote the establishment of new towns, preferably focussed on a specific industry, for example Information Technology, or a specific theme, for example education or health. Some projects are on the anvil in West Bengal and Karnataka.

### National Social Assistance Programme

29. Old age pensions are granted under the National Social Assistance Programme (NSAP) to destitute persons above the age of 65 years at Rs.75 per month. This is woefully inadequate. I propose to increase the pension to Rs.200 per month. I have provided Rs.1,430 crore for 2006-07 and additional funds, if required, will be provided during the course of the year. I would urge State Governments to make an equal contribution from their resources so that a destitute pensioner would get at least Rs.400 per month. I also propose to work with the Department of Posts and the banks to establish, within two years, a system under which the pension will be credited directly to the account of the beneficiary in a post office or a bank.

### Women and Children

30. Last year, I introduced a statement highlighting the gender sensitivities of the budgetary allocations. I was able to cover 10 demands for grants. This time, I have been able to enlarge the statement on gender budgeting to include schemes where 100 per cent of the allocation is for the benefit of women as well as schemes where at least 30 per cent of the allocation is targeted towards women. The statement now covers 24 demands for grants in 18 Ministries/Departments and five Union Territories and schemes with an outlay of Rs.28,737 crore.

31. Furthermore, several Ministries and Departments have initiated an exercise to prepare a public expenditure profile of their budgets from a gender perspective. 32 Ministries and Departments have set up Gender Budgeting Cells.

### Scheduled Castes and Scheduled Tribes

32. Government is committed to the welfare of Scheduled Castes (SCs) and Scheduled Tribes (STs).

Honourable Members will be happy to know that this Budget, like last year's, contains a separate statement on the schemes for the welfare and development of SCs and STs. On a like to like basis, the allocations for schemes benefiting only SCs and STs have been enhanced by 14.5 per cent to Rs.2,902 crore and the allocations for schemes with at least 20 per cent allocation for SCs and STs have been enhanced by 13.9 per cent to Rs.9,690 crore.

33. The equity contribution to the National SC Finance and Development Corporation is being increased to Rs.37 crore and to the National Safai Karamchari Finance and Development Corporation to Rs.80 crore in 2006-07.

### Minorities

34. I propose to extend greater financial support to the organizations actively involved in the welfare of the minorities. Accordingly, I intend to double the corpus fund of the Maulana Azad Educational Foundation to Rs.200 crore.

35. I propose to contribute Rs.16.47 crore to strengthen the equity base of the National Minorities Development and Finance Corporation. In line with the Prime Minister's announcement on August 15, 2005, the Corporation will intensify its efforts to reach out to artisans and weavers living in urban and peri-urban centres, especially in districts with concentration of minorities. The programme will focus on skill enhancement, credit and techno-managerial support.

36. I propose to increase the allocation to the National Council for Promotion of Urdu Language from Rs.10 crore to Rs.13 crore.

37. Merit-cum-means based scholarships encourage students to pursue higher studies. Government will finance 20,000 such scholarships to students belonging to the minority communities. Once the scheme is finalized in 2006-07, I intend to allocate the necessary funds.

'Kasturba Gandhi Balika Vidyalaya Scheme  
38. The initial results of the Kasturba Gandhi Balika Vidyalaya Scheme launched in 2004 are encouraging. 1,000 new residential schools for girls from SC, ST, OBC and minority communities will be opened in 2006-07. I have provided Rs.128 crore, and I have agreed to provide an additional sum of Rs.172 crore during the year. I propose to provide a further incentive to the girl child who passes the VIII standard Examination and enrolls in a secondary school. A sum of Rs.3,000 will be deposited in her name, and she would be entitled to withdraw it on reaching 18 years of age.

39. Government has shifted the emphasis from sheer 'quantity' to the 'quality' of the outcome of the various social sector programmes. To ensure value for public expenditure, an Outcome Budget was presented on August 25, 2005. Government intends to present a Performance Budget on the first Outcome Budget before the end of the Budget Session. The Outcome Budget for 2006-07 will be placed before this House by March 17, 2006. This new approach underscores our resolve to ensure that the intended services in the right quantity and quality are delivered to the aam admi.

### V INVESTMENT

40. There is an investment boom in the country and it is necessary to maintain the confidence of investors. It appears that India is catching up with the high investment rates of East Asia and China. Honourable Members will notice presently that, in every sector, the attempt is to promote more investment.

41. Government is committed to a strong and effective public sector. Public Sector Enterprises (PSEs) have, through internal and extra-budgetary resources, investment plans amounting to Rs.122,757 crore in 2006-07. I am happy to announce that Government will provide equity support of Rs.16,901 crore and loans of Rs.2,789 crore to Central PSEs (including Railways). Besides, I wish to point out that in the two years of this Government, we have infused

Rs.1,180 crore in cash and made non-cash sacrifices of Rs.2,566 crore to restructure ten PSEs, including Indian Telephone Industries Limited and Heavy Engineering Corporation Limited.

42. We believe that there is considerable scope for developing India as a hub for the gems and jewellery industry. I, therefore, propose to constitute an expert body that will look into the potential of this sector and the prevalent taxation practices in India and abroad, and make its recommendations in this behalf. I am sure this announcement will be welcomed by Non Resident Indians who are looking to India as the place for future expansion and growth.

43. Foreign Direct Investment (FDI) continues to play an important role. We have the opportunity to make India a manufacturing hub for textiles, automobiles, steel, metals, petroleum products etc. for the world market. In calendar 2005, up to November, 2005, FDI is estimated at \$ 4 billion, without counting reinvested earnings and other capital. I am confident that recent policy changes will attract more foreign investment into the country, especially in infrastructure.

### VI AGRICULTURE

44. Let me now turn to the productive sectors of the economy. As always, our Government's focus is on agriculture. Assured irrigation, credit, diversification and creating a market for agricultural products are the thrust areas.

### Irrigation

45. Out of an outlay of Rs.4,500 crore under AIBP in 2005-06, the grant component is Rs.1,680 crore. The States are expected to spend about Rs.2,520 crore from their resources, and 25 projects are expected to be completed before the end of the year. The outlay for 2006-07 has been increased to Rs.7,121 crore, and the Central Government will support the programme through a grant of Rs.2,350 crore. The Ministry of Water Resources will revamp the Command Area Development Programme to allow participatory irrigation management through water users' associations.

46. The programme for repair, renovation and restoration of water bodies is being implemented through pilot projects in 23 districts in 13 States. The design of the programme has been finalized in consultation with the States. 20,000 water bodies with a command area of 1.47 million hectares have been identified in the first phase. The estimated cost is Rs.4,481 crore. The funding pattern (Central, States and external assistance) has been finalized, and I intend to seek and receive funds from multi-lateral agencies. The participating State Government will be requested to sign a memorandum of understanding and the water bodies in that State will be taken up for repair, renovation and restoration in 2006-07.

### Credit

47. Farm credit increased to Rs.125,309 crore in 2004-05 (well above the target) and is again expected to cross the target of Rs.141,500 crore set for the

current year. I propose to ask the banks to increase the level of credit to Rs.175,000 crore in 2006-07 and also add another 50 lakh farms to their portfolio. We shall not only achieve but exceed the target of doubling farm credit in three years. Since tenant farmers are not adequately served, I have asked the banks to open a separate window for self-help groups or joint liability groups of tenant farmers and ensure that a certain proportion of the total credit is extended to them. I intend to monitor closely this behalf.

48. I am aware of the severe difficulties faced by farmers in the last two years. Ours is a compassionate Government. I also have severe fiscal constraints. When faced with a dilemma, I usually turn to my favourite poet-philosopher, Saint Tiruvalluvar. Writing over 2,000 years ago, he said:  
*'Karumam Sidhaiyeral Kannada Vallarku Urimai Uditthu Iv Ulegu'*  
(The world is his who does his job With compassion)

I am prepared to go the extra mile to come to the aid of our farmers. To begin with, I propose to grant some relief to the farmers who have availed of crop loans from scheduled commercial banks, RRBs and PACS for Kharif and Rabi 2005-06. Accordingly, an amount equal to two percentage points of the borrower's interest liability on the principal amount up to Rs.100,000, will be credited to his/her bank account before March 31, 2006. I have provided a sum of Rs.1,700 crore for this purpose. I hope the House will welcome this exceptional gesture of the Government.

49. For our farmers, I have more. Farmers obtain short-term credit from the cooperative credit structure and Regional Rural Banks (RRBs), with refinancing from NABARD. Increasingly, scheduled commercial banks are also lending more to farmers. It is my intention to ensure that NABARD continues to provide refinancing at an economical rate, so that the farmer ultimately gets the loan at a reasonable rate. Accordingly, after giving anxious consideration to market conditions, Government has decided to ensure that the farmer receives short-term credit at 7 per cent, with an upper limit of Rs.300,000 on the principal amount. This would require a certain level of subvention to NABARD. I propose to give the subvention. This policy will come into force with effect from Kharif 2006-07, and I shall make a detailed statement in due course.

50. The Rural Infrastructure Development Fund (RIDF) has so far disbursed funds in 11 tranches. RIDF XI sanctions have touched a level of Rs.7,301 crore as on January 31, 2006. A special feature this year has been that Rs.346 crore has been sanctioned to the North Eastern States. This sum is likely to touch Rs.600 crore by the year end. Keeping in view the expanding requirements for creating rural infrastructure, I propose to increase the corpus of RIDF XII to Rs.10,000 crore, and I urge State Governments to make the best use of these funds.

51. I also propose to allow specified projects under the Public Private Partnership (PPP) model to access RIDF funds.

52. The rural roads component of Bharat Nirman requires large funds. Hence, I propose to open a separate window under RIDF XII for rural roads with a corpus of Rs.4,000 crore during 2006-07.

### Agricultural Insurance

53. The National Agricultural Insurance Scheme (NAIS) will be continued in its present form for Kharif and Rabi 2006-07.

### Plantation Sector

54. In continuation of the announcement in the last Budget to introduce a 15 year programme for massive re-plantation and rejuvenation of tea, Ministry of Commerce has proposed to set up a Special Purpose Tea Fund. While the details are being worked out, to signal my support to the idea, I propose to make a

levelized contribution every year to the Fund. For 2006-07, the contribution is expected to be Rs.100 crore. When established, the Fund will benefit growers in the tea growing States including Assam, West Bengal, Tamil Nadu, Kerala and Uttaranchal.

### Micro Finance

55. I had proposed major initiatives in respect of micro finance in the last Budget. RBI has since issued guidelines to enable banks to appoint banking correspondents and banking agents. A window to access ECB funds has also been opened. A Bill to provide a formal statutory framework for the promotion, development and regulation of the micro finance sector will be introduced in this session.

56. The Self Help Group (SHG) movement is making rapid strides. In the two years of the UPA Government, we have credit-linked 801,000 SHGs. The credit disbursed to these SHGs is approximately Rs.4,863 crore. I propose to ask the banking sector to credit-link another 385,000 SHGs in 2006-07. I shall also ask NABARD to open a separate line of credit for financing farm production and investment activities through SHGs.

57. The findings of the NSS 59th Round (2003) reveal that out of the total number of cultivator households only 27 per cent receive credit from formal sources and 22 per cent from informal sources. The remaining households, mainly small and marginal farmers, have virtually no access to credit. With a view to bringing more cultivator households within the banking fold, I propose to appoint a Committee on Financial Inclusion. The Committee will be asked to identify the reasons for exclusion, and suggest a plan for designing and delivering credit to every household that seeks credit from lending institutions.

### Horticulture and Fisheries

58. The PPP model will be employed to set up model terminal markets in different parts of the country. A sum of Rs.150 crore has been earmarked for this purpose in 2006-07 under the National Horticulture Mission. A Central Institute of Horticulture will be established in Nagaland. The National Fisheries Development Board will be constituted shortly.

### VII MANUFACTURING

#### Employment

59. The two sectors which have the potential to create a large number of jobs are manufacturing and services. In manufacturing, we have identified some industries which, with appropriate incentives, can throw up huge job opportunities. These include textiles, food processing, petroleum, chemicals and petro-chemicals, leather, and automobiles. In services, tourism and software can offer a large number of jobs.

#### Textiles

60. The last two Budgets have created an enabling environment for the growth of the textile industry, especially cotton textiles. There has been an encouraging response to the Technology Upgradation Fund (TUF) scheme. I propose to enhance the

allocation from Rs.435 crore to Rs.535 crore next year. The Scheme for Integrated Textiles Parks (SITP) was launched in October 2005 with the intention of creating 25 textile parks. As on date, 7 parks have been sanctioned and 10 parks have been identified for development. I propose to provide Rs.188 crore for this scheme.

61. Government proposes to launch the Jute Technology Mission in 2006-07 to harness the potential of the golden fibre. A National Jute Board will be established. I propose to make a token provision with the assurance that the funds required will be made available once the outlay is finalized.

#### Handlooms

62. Several schemes, including schemes for life insurance and health insurance, were announced in the last Budget for the handloom sector. They are being implemented. The Cluster Development approach will continue. It is proposed to cover an additional 100 clusters at a cost of Rs.50 crore in 2006-07. Yam depots will be established in different parts of the country to ensure uninterrupted supply of yarn to weavers. Just as 'woolmark' has gained recognition, it is proposed to launch a 'handloom' mark. A scheme similar to TUFs will be introduced for the handloom sector to provide interest subsidy on term loans. I propose to increase the provision for the handloom sector from Rs.195 crore to Rs.241 crore next year.

#### Food Processing Industry

63. Recognizing the enormous benefits that the food processing industry can bring to agriculture and job creation, and to consumers, food processing will be treated as a priority sector for bank credit. NABARD will create a separate window with a corpus of Rs.1,000 crore for refinancing loans to the sector, especially for agro-processing infrastructure and model development. Government will also set up the National Institute of Food Technology Entrepreneurship and Management. The Paddy Processing Research Centre at Thanjavur will be developed into a national-level institute.

#### Petroleum, Chemicals and Petro-chemicals

64. Petroleum, chemicals and petro-chemicals (PC&P) is a sector with potential for large investment and employment. In order to promote investment in this sector, Government has set up a Task Force to facilitate the development of large PC&P investment Regions. World class developers and investors are being associated with the Task Force. It is expected that in 2006-07 at least three such investment Regions will be developed.

#### Information Technology

65. With the spread of Information Technology (IT) and IT Enabled Services (ITES), the time is ripe to make India a preferred destination for the manufacture of semi-conductors and other high technology IT products including Wafer; Assembly, Test and Manufacture of Semi-conductors; Flat LCD/OLED/Plasma Panel Displays; and Storage Devices. To achieve this goal the Ministry of Information Technology will announce a policy shortly. I propose to use the existing vehicles of viability gap funding and the India Infrastructure Finance Company Limited (IIIFCL) to create a window to provide equity participation and/or viability gap funding to the new ventures. The window will be open for three years in order to accelerate investment.

#### Small and Medium Enterprises

66. The introduction of the Small and Medium Enterprises (Development) Bill and the policy on credit announced on August 10, 2005 have, I believe, triggered a change in the mindset of small and medium entrepreneurs. The new thrust is towards up-scaling the size and technological upgradation. After due consultation with the stakeholders and on the recommendation of the Advisory Committee, the Ministry of Small Scale Industries has identified 180

items for diversification.  
67. In order to give a fresh impetus to lending by the Small Industries Development Bank of India (SIDBI), I propose to:

- Recognize SMEs in the services sector, and treat the small scale enterprises in the services sector on par with the small scale enterprises in the manufacturing sector;
- Raise the corpus of the Credit Guarantee Fund from Rs.1,132 crore to end-March 2006 to Rs.2,500 crore in five years. In 2006-07, I propose to provide a sum of Rs.118 crore;
- Advise Credit Guarantee Trust for Small Industries (CGTSI) to reduce the one time guarantee fee from 2.5 per cent to 1.5 per cent for all loans; and
- Extend insurance cover to approximately 30,000 borrowers, identified as chief promoters, under the CGTSI. The sum assured would be Rs.200,000 per beneficiary and the premium will be paid by CGTSI.

68. The National Manufacturing Competitiveness Council (NMCC) has finalized a five-year National Manufacturing Competitiveness Programme. Ter schemes have been drawn up including schemes for promotion of ICT, mini tool rooms, design clinics and marketing support for SMEs. Implementation will be in the PPP model, and financing will be tied up during the course of the next year.

Cluster Development  
69. The Cluster Development model can be usefully adopted not only to promote manufacturing but also to renew industrial towns and build new industrial townships. The model is now being implemented, in one form or other, in nine sectors falling under different Ministries. The sectors include khadi and village industries, handlooms, handicrafts, textile agricultural products and medicinal plants. It would be advantageous to empower a group to oversee cluster development and monitor progress. Hence, the Prime Minister has decided to constitute an Empowerment Group of Ministers who will lay down the policy for cluster development and oversee the implementation.





# Say cheers, aam admi PC's on Mission mode

**M**R SPEAKER, Sir, it is my privilege to present the Budget for the year 2006-07. Twenty months ago, when I presented the first Budget of the UPA government, I asked Honourable Members—and the people of this country—to walk with us on the path of honour and courage. The final report card on the first year of the UPA government is out, and there are reasons to celebrate. According to the Central Statistical Organisation (CSO), the growth rate in 2004-05 was 7.5%, with the manufacturing sector growing at 8.1%. More importantly, at current market prices, gross domestic saving increased to 29.1% of GDP and the rate of gross capital formation increased to 30.1% of GDP. I have no doubt in my mind that these results were due to the political message conveyed by the National Common Minimum Programme (NCMP), the perceptive leadership of the Prime Minister Dr Manmohan Singh; the policy changes made by the government; and the palpable confidence of the Indian people that their future is in safe hands.

I am happy to report that the prospects for 2005-06 are just as good, if not better. This year can be characterised as the best of times and the worst of times. Nature has not been kind to us. Natural calamities took a heavy toll on human lives besides causing extensive damage to crops, roads, houses, and the infrastructure. Government provided immediate interim relief; this was followed by releases from the CRF and NCCF totalling Rs 5145.37 crore to date. Obviously, this assistance will not be enough. The Planning Commission will draw up a programme for rebuilding the damaged infrastructure, and I wish to assure the House that the government will provide the money for rehabilitation and reconstruction.

**AN OVERVIEW OF THE ECONOMY**  
It was also the best of times, government has been able to fulfil the first NCMP obligation of ensuring a high growth rate. According to the CSO's advance estimates, GDP growth is likely to be 8.1% this year, with the manufacturing sector expected to grow at 9.4%. Agricultural growth has bounced back to 2.3% and, barring mining, all other sectors are performing satisfactorily. Inflation, as on February 11, 2006 was 4.02%. Non-food credit is growing by over 25%. A large part of the credit goes to our farmers, workers, service providers, traders and business persons, and I would urge the House to join me in saluting them.

The assault on poverty and unemployment continues. I believe that growth is the best antidote to poverty. The GDP growth target for the 10th Plan was set at 8%. Thanks to three years of 7.5% plus growth, it is possible that the overall growth rate will be 7%. In recent speeches, the Prime Minister has raised the bar to 10%, and the government is determined to take the country to that high growth path. Growth will be our motto; equity will be our companion, and social justice will be our destination.

**IMPLEMENTING THE NCMP MANDATE**  
Our success this year is due to our unrelenting emphasis on fiscal prudence through enhanced revenues and expenditure control, monetary stability and management of the external debt. However, our success should not tempt us to stray from this path, and we shall not do so.

One of the important NCMP obligations was to focus on agriculture. We have done so, and the output of food grains is expected to be 209.3 million tonnes, which is about 5 million tonnes more than in the previous year. The NCMP mandates the government to promote employment, while creating permanent and quality jobs in the productive sectors, for providing immediate relief to the poor, the National Rural Employment Guarantee Scheme was launched on February 2, 2006. In the current year, under a clutch of schemes including the Food for Work programme, a sum of Rs 11,700 crore is expected to be spent on rural employment. The NCMP mandates the government to enhance investment; the investment rate has increased steadily from 25.3% in 2002-03 to 30.1% in 2004-05. Several indicators point to continued buoyancy of capital formation in the economy.

The NCMP also mandates the government to augment infrastructure. 5,083 km of capacity will be added to power generation in 2005-06, and during the 10th Plan period the total addition is estimated at 34,000 MW, which is a record. Until December, 2005, under the Rajiv Gandhi Gramin Vidyutikan Yojana, contracts have been placed for projects spanning 95 districts and covering 41,461 un-electrified and 9,379 electrified villages. Work is on at full steam on the Golden Quadrilateral (GQ) and the North-South, East-West corridors. As against 1,860 km per day completed prior to May, 2004, the schemes are progressing at the rate of 4.48 km per day. 96% of the GQ will be completed by June, 2006 and the corridors will be completed by end 2008. There is also substantial and visible progress in improving our ports, airports and rural roads. As the year draws to a close, I look back with satisfaction that the promises we made to the common citizen—the aam admi—have been substantially redeemed.

**BHARAT NIRMAN**  
I would like to make special mention of Bharat Nirman. It epitomises the UPA's approach to governance. It is a paradigm shift that enables us to use the resources thrown up by the engine of growth for building infrastructure and bringing basic amenities to rural India. Honourable Members are aware of the six components of Bharat Nirman and the ambitious targets to be achieved by the year 2009. In the first year of its implementation, 2005-06, Rs 944.18 crore has been released so far as grant under the Accelerated Irrigation Benefit Programme (AIBP) and the target of 600,000 hectares of irrigation potential is expected to be created this year. Against the physical target of 56,270 habitations, 47,546 habitations have been covered till January, 2006 under the Accelerated Rural Water Supply Project (ARWSP); 5,337 habitations were connected

under the rural roads programme by September, 2005, and Rs 3,749 crore has been released so far. 870,000 rural houses have been constructed and a sum of Rs 2,260 crore has been released till January, 2006. The entire allocation for rural electrification of Rs 1,100 crore has been released and the target of covering 10,366 villages is expected to be achieved in the current fiscal. 17,182 villages have been provided with a telephone till December, 2005 in the first year of the three year programme. These numbers are a complete answer to those who scoffed at Bharat Nirman. We are determined to soldier on, and execute the programme in the mission mode. Since the implementation of Bharat Nirman has gathered pace, I propose to extend larger budgetary support to the programme. Including the North East component, as against Rs 12,160 crore provided in the current year, the corresponding budgetary provision will be Rs 18,696 crore in 2006-07, an increase of 54%.

**THE FLAGSHIP PROGRAMMES**  
Let me now present an overview of the Budget. Obviously, the bulk of the resources must go to the UPA government's eight flagship programmes: Sarva Siksha Abhiyan, Mid-day Meal Scheme, Rajiv Gandhi Drinking Water Mission, Total Sanitation Campaign, National Rural Health Mission, Integrated Child Development Services, National Rural Employment Guarantee Scheme and Jawaharlan Nehru National Urban Renewal Mission. In 2005-06, Gross Budgetary Support (GBS) for the Plan was Rs 143,497 crore. Of this, support to the Central Plan was Rs 110,385 crore. I propose to increase both allocations substantially. GBS for 2006-07 has been fixed at Rs 172,728 crore, representing an increase of 20.4%. Out of this, the Central Plan will receive a support of Rs 131,285 crore. Education and health will continue to enjoy primacy. For 2006-07, the allocation for education has been enhanced by 31.5% to Rs 24,115 crore and for health and family welfare by 22.0% to Rs 12,546 crore. On the eight flagship programmes, the total allocation in 2005-06 was Rs 34,927 crore. In the ensuing fiscal year, the total allocation will be Rs 50,015 crore, representing an additional Rs 15,088 crore or 43.2%.

**North Eastern Region (NER)**  
To this, however, we must add the allocation of 10% of the Plan Budget of each Ministry/Department for schemes and programmes in the North Eastern Region (NER). For the flagship programmes alone, this would amount to an additional budget of Rs 4,870 crore in 2006-07. The total Budget allocation for the NER is Rs 12,041 crore which includes Rs 1,350 crore provided to the Ministry of Development of North Eastern Region (DONER). From BE 2005-06 to BE 2006-07, the step up is 18%.

**Sarva Siksha Abhiyan**  
Sarva Siksha Abhiyan (SSA) has recorded remarkable progress in 2005-06 in terms of new schools, additional class rooms and additional teachers. Two independent surveys show that 93% of the children in the age group 6-14 years are in school, and the number of children not in school has come down to about one crore. Recognising good performance, I propose to increase the outlay for SSA from Rs 7,156 crore to Rs 10,041 crore in 2006-07. 500,000 additional class rooms will be constructed and 150,000 more teachers will be appointed. In 2006-07, we shall transfer Rs 8,746 crore to the Prarambhik Siksha Kosh from the revenues raised through the education cess.

**Mid-day Meal Scheme**  
Twelve crore children are now covered under the Mid-day Meal Scheme, which is the largest school lunch programme in the world. I propose to enhance the allocation from Rs 3,010 crore to Rs 4,813 crore in 2006-07.

**Drinking Water and Sanitation**  
Target for the current year for drinking water supply will be completed, and 56,270 habitations and 140,000 schools will be covered. Apart from non-fund expenditure, a system under which the provision for the Rajiv Gandhi National Drinking Water Mission from Rs 3,645 crore to Rs 4,680 crore next year. I propose to increase provision for the Rural Sanitation Campaign from Rs 630 crore to Rs 720 crore in 2006-07.

**National Rural Health Mission**  
The National Rural Health Mission was launched on April 12, 2005. I am confident that to 2006-07 more than 200,000 Associated Social Health Activists (ASHA) will be fully functional and over 1,000 block level community health centres will provide round the clock services. I have increased the allocation for NRHM from Rs 6,553 crore to Rs 8,207 crore for the next year. The WHO standard defining 'elimination of leprosy' is one case per 10,000 population. I am happy to announce that the goal of eliminating leprosy was reached in 2005. Continuing the vigorous immunisation programme, we hope to eliminate polio from the country by December, 2007.

**Integrated Child Development Services**  
We have expanded the Integrated Child Development Services (ICDS) scheme and created an additional 188,168 centres. Supplementary nutrition is the most important component of the scheme. Beginning this year, the Centre is assisting the States to the extent of 50% of the actual expenditure incurred for supplementary nutrition or 50% of the cost norms, whichever is less. The cost to the Centre this year is estimated at Rs 1,500 crore, and I propose to increase this assistance to Rs 1,700 crore for 2006-07. The total allocation for ICDS is being increased from Rs 3,315 crore to Rs 4,087 crore.

**National Rural Employment Guarantee Scheme**  
I have already referred to the Rural Employment scheme which is the primary instrument to combat rural unemployment and hunger poverty. For 2006-07, the total allocation for rural employment will be Rs 14,300 crore. Of this, Rs 11,300 crore (including NER component) will be under the current fiscal. 17,182 villages have been provided with a telephone till December, 2005 in the first year of the three year programme. These numbers are a complete answer to those who scoffed at Bharat Nirman. We are determined to soldier on, and execute the programme in the mission mode. Since the implementation of Bharat Nirman has gathered pace, I propose to extend larger budgetary support to the programme. Including the North East component, as against Rs 12,160 crore provided in the current year, the corresponding budgetary provision will be Rs 18,696 crore in 2006-07, an increase of 54%.

**Jawaharlan Nehru National Urban Renewal Mission**  
The Jawaharlan Nehru National Urban Renewal Mission was launched on December 3, 2005. For 2006-07, the total allocation for rural employment will be Rs 14,300 crore. Of this, Rs 11,300 crore (including NER component) will be under the current fiscal. 17,182 villages have been provided with a telephone till December, 2005 in the first year of the three year programme. These numbers are a complete answer to those who scoffed at Bharat Nirman. We are determined to soldier on, and execute the programme in the mission mode. Since the implementation of Bharat Nirman has gathered pace, I propose to extend larger budgetary support to the programme. Including the North East component, as against Rs 12,160 crore provided in the current year, the corresponding budgetary provision will be Rs 18,696 crore in 2006-07, an increase of 54%.

**Kasturba Gandhi Balika Vidyalyaya Scheme**  
The initial results of the Kasturba Gandhi Balika Vidyalyaya Scheme launched in 2004 are encouraging. 1,000 new residential schools for girls from SC, ST, OBC and minority communities will be opened in 2006-07. I have provided Rs 128 crore, and I have agreed to provide an additional sum of Rs 172 crore during the year. I propose to provide a further incentive to the girl child who passes the VIII Standard Examination and enrolls in a secondary school. A sum of Rs 3,000 will be deposited in her name, and she would be entitled to withdraw it on reaching 18 years



of age, government has shifted the emphasis from sheer 'quantity' to the 'quality' of the outcome of the various social sector programmes. To ensure value for public expenditure, an Outcome Budget was presented on August 25, 2005. government intends to present a Performance Budget in the first Outcome Budget before the end of the Budget Session. The Outcome Budget for 2006-07 will be placed before the House by March 17, 2006. This new approach underscores our resolve to ensure that the intended services in the right quantity and quality are delivered to the aam admi.

**INVESTMENT**  
There is an investment boom in the country and it is necessary to maintain the confidence of investors. It appears that India is catching up with the high investment rates of East Asia and China. Honourable Members will notice presently that, in every sector, the attempt is to promote more investment. government is committed to a strong and effective public sector, Public Sector Enterprises (PSEs) have, through internal and extra-budgetary resources, investment plans, amounting to Rs 122,757 crore in 2006-07. I am happy to announce that government will provide equity support of Rs 16,901 crore and loans of Rs 2,789 crore to Central PSUs including Railways. Besides, I wish to point out that in the two years of this government, we have infused Rs 1,180 crore in cash and made non-cash sacrifices of Rs 2,506 crore to restructure ten PSUs, including Indian Telephone Industries Limited and Heavy Engineering Corporation Limited.

We believe that there is considerable scope for developing India as a hub for the gems and jewellery industry. I, therefore, propose to constitute an expert body that will look into the potential of this sector and the prevalent taxation practices in India and abroad, and make its recommendations in this behalf. I am sure this announcement will be welcomed by Non-Resident Indians who are looking to India as the place for future expansion and growth. Foreign Direct Investment (FDI) continues to play an important role. We have the opportunity to make India a manufacturing hub for textiles, automobiles, steel, metals, petroleum products etc. for the world market. In calendar 2005, up to November, 2005, FDI is estimated at \$ 4 billion, without counting reinvested earnings and other capital. I am confident that recent policy changes will attract more foreign investment into the country, especially in infrastructure.

**Scheduled Castes and Scheduled Tribes**  
Department is committed to the welfare of Scheduled Castes (SCs) and Scheduled Tribes (STs). Honourable Members will be happy to know that this Budget, like last year's, contains a separate statement on the schemes for the welfare and development of SCs and STs. On a like-to-like basis, the allocations for schemes benefiting only SCs and STs have been enhanced by 14.5% to Rs 2,902 crore and the allocations for schemes with at least 20% allocation for SCs and STs have been enhanced by 13.9% to Rs 9,690 crore. Equity contribution to National SC Finance and Development Corporation is being raised to Rs 37 crore and to National Salai Karamchiri Finance and

Development Corporation to Rs 80 crore in 2006-07.

**Minorities**  
I propose to extend greater financial support to the organisations actively involved in the welfare of the minorities. Accordingly, I intend to double the corpus fund of the Maulana Azad Educational Foundation to Rs 200 crore. I propose to contribute Rs 16.47 crore to strengthen the equity base of the National Minorities Development and Finance Corporation. In line with the Prime Minister's announcement on August 15, 2005, the Corporation will intensify its efforts to reach out to artisans and weavers living in urban and peri-urban centres, especially in districts with concentration of minorities. The programme will focus on skill enhancement, credit and techno-managerial support. I propose to increase the allocation to the National Centre for Promotion of Urdu Language from Rs 10 crore to Rs 13 crore. Merit-cum-means based scholarships encourage students to pursue higher studies; government will finance 20,000 such scholarships to students belonging to the minority communities. Once the scheme is finalised in 2006-07, I intend to allocate the necessary funds.

**AGRICULTURE**  
Let me now turn to the productive sectors of the economy. As always, our government's focus is on agriculture. Assured irrigation, credit, diversification and creating a market for agricultural products are the thrust areas.

**Irrigation**  
Out of an outlay of Rs 4,500 crore under AIBP in 2005-06, the grant component is Rs 1,680 crore. The States are expected to spend about Rs 2,520 crore from their resources, and 25 projects are expected to be completed before the end of the year. The outlay for 2006-07 has been increased to Rs 7,121 crore, and the Central government will support the programme through a grant of Rs 2,350 crore. The Ministry of Water Resources will revamp the Command Area Development Programme to allow participatory irrigation management through water users' associations. The programme for repair, renovation and restoration of water bodies is being implemented through pilot projects in 23 districts in 13 States. The design of the programme has been finalised in consultation with the States. 20,000 water bodies with a command area of 1.47 million hectares have been identified in the first phase. The estimated cost is Rs 4,481 crore. The funding pattern (Centre, States and external assistance) has been finalised, and I intend to seek and receive funds from multi-lateral agencies. The participating State government will be requested to sign a memorandum of understanding and the water bodies in that State will be taken up for repair, renovation and restoration in 2006-07.

**Credit**  
Farm credit increased to Rs 125,309 crore in 2004-05 (well above the target) and is again expected to cross the target of Rs 141,500 crore set for the current year. I propose to ask the banks to increase the level of credit to Rs 175,000 crore in 2006-07 and also add another 50 lakh farmers to their portfolio. We shall not only achieve but exceed the target of doubling farm credit in three years. Since tenant farmers are not adequately served, I have asked the banks to open a separate window for self-help groups or joint liability groups of tenant farmers and ensure that a certain proportion of the total credit is extended to them. I intend to monitor closely progress in this behalf. I am aware of the severe difficulties faced by farmers in the last two years. Ours is a compassionate government. I also have severe fiscal constraints. When faced with a dilemma, I usually turn to my favourite poet-philosopher, Saint Tiruvalluvar. Writing over 2,000 years ago, he said: "Karunam Sidhaiyamal Kannoda Vallarku" (The world is his who does his job with compassion).

I am prepared to go the extra mile to come to the aid of our farmers. To begin with, I propose to grant some relief to the farmers who have availed of crop loans from scheduled commercial banks, RRBs and PACS for Kharif and Rabi 2005-06. Accordingly, an amount equal to two percentage points of the borrower's interest liability on the principal amount up to Rs 100,000, will be credited to his/her bank account before March 31, 2006. I have provided a sum of Rs 1,700 crore for this purpose. I hope the House will welcome this exceptional gesture of the government. For our farmers, I have more.

Farmers obtain short-term credit from the cooperative credit structure and Regional Rural Banks (RRBs), with refinancing from NABARD. Increasingly, scheduled commercial banks are also lending more to farmers. It is my intention to ensure that NABARD continues to provide refinancing at an economical rate, so that the farmer ultimately gets the loan at a reasonable rate. Accordingly, after giving anxious consideration to market conditions, government has decided to ensure that the farmer receives short-term credit at 7%, with an upper limit of Rs 300,000 on the principal amount. This would require a certain level of subvention to NABARD. I propose to give the subvention. This policy will come into force with effect from Kharif 2006-07, and I shall make a detailed statement in due course.

The Rural Infrastructure Development Fund (RIDF) has so far disbursed funds in 11 tranches. RIDF II sanctions have touched a level of Rs 3,301 crore as on January 31, 2006. A special feature this year has been that Rs 346 crore has been sanctioned to the North Eastern States. This sum is likely to touch Rs 600 crore by the year end. Keeping in view the expanding requirements for creating rural infrastructure, I propose to increase the corpus of RIDF XII to Rs 10,000 crore, and I urge State governments to make the best use of these funds. I also propose to allow specified projects under the Public Private Partnership (PPP) model to access RIDF funds. The rural roads component of Bharat Nirman requires large funds. Hence, I propose to open a separate window under RIDF XII for rural roads with a corpus of Rs 4,000 crore during 2006-07.

**Agricultural Insurance**  
The National Agricultural Insurance Scheme (NAIS) will be continued as its present form for Kharif and Rabi 2006-07.

**Plantation Sector**  
In continuation of the announcement in the last Budget to introduce a 15 year programme for massive re-plantation and rejuvenation of tea, Ministry of Commerce has proposed to set up a Special Purpose Tea Fund. While the details are being worked out, I signed my support to the idea. I propose to make a levelled contribution every year to the Fund. For 2006-07, the contribution is expected to be Rs 100 crore. When established, the Fund will benefit growers in the tea growing States including Assam, West Bengal, Tamil Nadu, Kerala and Uttaranchal.

**Micro Finance**  
I had proposed major initiatives in respect of micro finance in the last Budget. RBI has since issued guidelines to enable banks to appoint banking correspondents and banking agents. A window to access ECB funds has also been opened. A Bill to provide a formal statutory framework for the promotion, development and regulation of the micro finance sector will be introduced in this session. The Self Help Group (SHG) movement is making rapid strides. In the two years of the UPA government, we have credit-linked 80,100 SHGs. The credit disbursed to these SHGs is approximately Rs 4,863 crore. I propose to ask the banking sector to credit-link another 385,000 SHGs in 2006-07. I shall

also ask NABARD to open a separate line of credit for financing farm production and investment activities through SHGs. The findings of the NSS-55 (Biomix 2003) reveal that out of the total number of cultivator households only 27% receive credit from formal sources and 22% from informal sources. The remaining households, mainly small and marginal farmers, have virtually no access to credit. With a view to bringing more cultivator households within the banking fold, I propose to appoint a Committee on Financial Inclusion. The Committee will be asked to identify the reasons for exclusion, and suggest a plan for designing and delivering credit to every household that seeks credit from lending institutions.

**Horticulture and Fisheries**  
The PPP model will be employed to set up model terminal markets in different parts of the country. A sum of Rs 150 crore has been earmarked for this purpose in 2006-07 under the National Horticulture Mission. A Central Institute of Horticulture will be established in Nagaland. The National Fisheries Development Board will be constituted shortly.

**MANUFACTURING**  
**Employment**  
The two sectors which have the potential to create a large number of jobs are manufacturing and services. In manufacturing, we have identified some industries which, with appropriate incentives, can throw up huge job opportunities. These include textiles, food processing, petroleum, chemicals and petro-chemicals, leather, and automobiles. In services, tourism and software can offer a large number of jobs.

**Textiles**  
The last two Budgets have created an enabling environment for the growth of the textile industry, especially cotton textiles. There has been an encouraging response to the Technology Upgradation Fund (TUF) scheme. I propose to enhance the allocation from Rs 435 crore to Rs 535 crore next year. The Scheme for Integrated Textiles Parks (SITP) was launched in October 2005 with the intention of creating 25 textile parks. As on date, 7 parks have been sanctioned and 40 parks have been identified for development. I propose to provide Rs 189 crore for this scheme. government proposes to launch the Text Technology Mission in 2006-07 to harness the potential of the golden fibre. A National Textile Board will be established. I propose to make a token provision with the assurance that the funds required will be made available once the outlay is finalised.

**Handlooms**  
Several schemes, including schemes for life insurance and health insurance, were announced in the last Budget for the handloom sector. They are being implemented. The Cluster Development approach will continue. It is proposed to cover an additional 100 clusters at a cost of Rs 50 crore in 2006-07. Yarn

deposits will be established in different parts of the country to ensure uninterrupted supply of yarn to weavers. Just as 'woolmark' has given the woolen fabric a 'handloom' mark, a scheme similar to TUFs will be introduced for the handloom sector to provide interest subsidy on term loans. I propose to increase the provision for the handloom sector from Rs 195 crore to Rs 241 crore next year.

**Food Processing Industry**  
Recognising the enormous benefits that the food processing industry can bring to agriculture and job creation, and to consumers, food processing will be treated as a priority sector for bank credit. NABARD will create a separate window with a corpus of Rs 1,000 crore for refinancing loans to the sector, especially for agro-processing infrastructure and market development. government will also set up the National Institute of Food Technology and Entrepreneurship and Management. The Paddy Processing Research Centre at Thanjavur will be developed into a national-level institute.

**Petroleum, Chemicals and Petro-chemicals**  
Petroleum, chemicals and petro-chemicals (PC&P) is a sector with potential for large investment and employment. In order to promote investment in this sector, government has set up a Task Force to facilitate the development of large PC&P investment Regions. World class developers and investors are being associated with the Task Force. It is expected that in 2006-07 at least three such investment Regions will be developed.

**Information Technology**  
With the spread of Information Technology (IT) and IT Enabled Services (ITES), the time is ripe to make India a preferred destination for the manufacture of semi-conductors and other high technology IT products including VLSI, Assembler, Test, and Manufacture of Semi-conductors, Flat LCD/OLED/Plasma Panel Displays and Storage Devices. To achieve this goal the Ministry of Information Technology will announce a policy shortly. I propose to use the existing vehicles of viability gap funding and the National Infrastructure Finance Company Limited (NIFCL) to create a window to provide equity participation and/or viability gap funding to the new ventures. The window will be open for three years in order to accelerate investment.

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The introduction of the Small and Medium Enterprises (Development) Bill and the policy on credit announced on August 10, 2005 have, I believe, triggered a change in the mindset of small and medium entrepreneurs. The new thrust is towards up-scaling the size and technological upgradation. After the consultation with the stakeholders and on the recommendation of the Advisory Committee, the Ministry of Small Scale Industries has identified 180 items for diversification. In order to give a fresh impetus to lending by the Small Industries Development Bank of India (SIDBI), I propose to:

- Re-organise SMEs in the services sector, and treat the small-scale enterprises in the services sector on par with the small-scale enterprises in the manufacturing sector.
- Raise the corpus of the Credit Guarantee Fund from Rs 1,132 crore at end-March 2006 to Rs 2,500 crore in five years. In 2006-07, I propose to provide a sum of Rs 118 crore.
- Advise Credit Guarantee Trust for Small Industries (CGTST) to reduce the one-time guarantee fee from 2.5% to 1.5% for all loans; and
- Extend insurance cover to approximately 30,000 borrowers, identified as chief promoters, under the CGTST. The sum assured would be Rs 200,000 per beneficiary and the premium will be paid by CGTST.

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# The Speech

The National Manufacturing Competitiveness Council (NMCC) has finalised a five-year National Manufacturing Competitiveness Programme. Ten schemes have been drawn up including schemes for promotion of ICT, mini tool rooms, design clinics and marketing support for SMEs. Implementation will be in the PPP model, and financing will be tied up during the course of the next year.

**Cluster Development**  
The Cluster Development model can be usefully adopted not only to promote manufacturing but also to reinvigorate towns and build new industrial townships. The model is now being implemented, in one form or other, in nine sectors falling under different Ministries. The sectors include khadi and village industries, handlooms, handicrafts, textiles, agricultural products and medicinal plants. It would be advantageous to empower a group to oversee cluster development and monitor progress. Hence, the Prime Minister has decided to constitute an Empowered Group of Ministers who will lay down the policy for cluster development and oversee the implementation.

**SERVICES SECTOR**  
**Tourism**  
Foreign tourist arrivals increased to 3.92 million in 2005. It is still a fraction of India's potential. During 2006-07, Ministry of Tourism will:  
■ Take up for development 15 tourist destinations and circuits following an integrated area development approach.  
■ Identify 50 villages with core competency in handicrafts, handlooms and culture, close to existing destinations and circuits, and develop them for enhancing tourists' experience; and  
■ Establish 4 new institutes of hotel management in the States of Chhattisgarh, Haryana, Jharkhand and Uttaranchal.

**Foreign Trade**  
Merchandise exports are growing at the rate of over 18% in the current year. Imports are high, but they are welcome because they are a sign of enhanced capital investment and industrial activity. Ministry of Commerce and Industry and Ministry of Finance have worked together to create an environment that is supportive of our exporters, and we are determined to double our share in world exports to 1.5% by the year 2008-09.

**INFRASTRUCTURE**  
**Telecommunication**  
The telecommunication sector in India is recording one of the fastest growth rates in the world. Tele-density stood at 11.75 per hundred at end-January 2006. The ambitious target is to reach 250 million connections by December, 2007, and I am confident of success. I propose to provide Rs 1,500 crore from the Universal Service Obligation Fund in 2006-07. More than 50 million rural connections will be rolled out in three years and, thereafter, a connection will be available on demand. The digital divide between rural India and urban India will be bridged. In order to extend financial support to infrastructure for cellular telephony in rural areas, the Minister of Communications will bring a Bill in the Budget session to amend the Indian Telegraph Act.

**Power**  
Power generation in 2005-06 has so far shown a modest growth of 4.7% because of shortage of fuel, mainly LNG and coal. The demand-supply mismatch continues. More efforts are required to augment capacity in generation, transmission and distribution. 82 projects are under construction and, when completed in one to three years, will add 33,000 MW of capacity in the public sector and 6,500 MW of capacity in the private sector. Of these, about 15,000 MW will come on stream by March 31, 2007. Ministry of Power has invited bids for five ultra mega projects of 4,000 MW each, of which two will be pith-head (in Chhattisgarh and Madhya Pradesh) and three will be coastal (in Gujarat, Karnataka and Maharashtra). It is our intention to award these projects before December 31, 2006.  
Capacity addition alone is not enough; we need deep and durable reforms in transmission and distribution. In order to create an enabling and empowered framework to carry out these reforms, the Prime Minister will establish an Empowered Committee of Chief Ministers and Power Ministers. A target of 3,075 MW of installed capacity for the Tenth Plan was fixed for non-conventional energy sources, including wind power. By December 31, 2005, that target had been exceeded and 3,650 MW of capacity installed. I propose to provide a sum of Rs 597 crore next year for non-conventional energy resources.

**Rajiv Gandhi Gramam Vidyalayan Yojana**  
All States have signed memoranda of understanding to implement the Rajiv Gandhi Gramam Vidyalayan Yojana. 10,000 villages will be electrified in the current year and, in 2006-07, 40,000 more villages will be electrified. The key to the success of this programme is the engagement of franchisees and proper commercial and contractual arrangements for distribution, billing and collection.

**Coal**  
A comprehensive review of the coal policy is underway. This year, 45 coal blocks have been allotted for captive consumption to the power, cement and steel sectors and to the State governments. After reserving blocks for Coal India Limited and its subsidiaries for the period up to 2012, it has been decided to de-block coal reserves of 20 billion tonnes for power projects. The definition of captive consumption will also be amended to allow coal mining by producers with firm supply contracts with steel, cement and power companies. The capacity of Central Mines Planning and Development Institute Limited (CMPDIL) to drill in order to prove reserves is now only 200,000 metres per annum, and this will be expanded substantially.

**Petroleum**  
Energy security is high on the government's agenda. In five rounds of the New Exploration Licensing Policy (NELP), 110 production sharing contracts have been awarded. Ministry of Petroleum and Natural Gas has now made its biggest offer under NELP VI. 55 blocks and an area of 355,000 sq kms, which is three as large as the previous round, have been offered. Besides investment in the upstream and downstream segments, we are encouraging investment in refining, pipelines and green fuel projects. In the refinery segment alone, an investment of Rs 22,000 crore is expected in the next few years.

**Road Transport**  
The National Highways Development Programme (NHDP) continues to make impressive progress. The highest ever number and value of contracts were awarded in calendar 2005. I propose to enhance the Budget support for NHDP from Rs 9,320 crore to Rs 9,949 crore in 2006-07. A special accelerated road development programme for the North Eastern region at an estimated cost of Rs 4,618 crore has been approved. For 2006-07, I propose to provide a sum of Rs 950 crore for this programme. Government has also decided to develop 1,000 kms of access-controlled Expressways. These will be on new alignment and built on the Design, Build, Finance and Operate (DBFO) model. The sections that have been identified are Vadodra-Mumbai, Delhi-Chandigarh, Delhi-Jaipur, Delhi-Meerut, Delhi-Agra, Bangalore-Chennai and Kolkata-Dhanbad. The concessionaires will be selected through an international competitive bidding process. National

Highway Authority of India (NHAI) will be restructured and made more effective. It will be made into a multi-disciplinary body with the capacity to handle a large number of PPP projects. New skill areas in planning and quality assurance, standardization, arbitration, road-safety and R&D will be created.

**Maritime Development**  
Honourable Members are aware that the National Maritime Development Programme (NMDP) has been approved by the government. The port sector alone will require Rs 55,804 crore. Work is in progress in 101 projects covering, inland waterways, shipping and ports which include deepening of channels in Kandla, JNPT and Paradip. I propose to increase the Plan allocation for the Department of Shipping by 37% to Rs 735 crore.

A deep draft port is required in the eastern part of the country. I am happy to announce that it is proposed to carry out a detailed study to identify a suitable location for a new deep draft port in West Bengal. The existing National Institute of Port Management, Chennai, has been renamed as the National Maritime Academy, and it is proposed to upgrade it into a Central University under an Act of Parliament. The University will have regional campuses at Mumbai, Kolkata and Visakhapatnam. The India Infrastructure Finance Company Limited (IIFCL) has been incorporated, and the first proposal for funds has been received. Several proposals have been received for viability gap funding for PPP projects. In-principle approval has been granted to three road projects in Gujarat and a final decision is likely to be taken before March 31, 2007.

**FINANCIAL SECTOR**  
**Banking, Insurance and Pensions**  
As part of the reforms in the banking sector introduced in 1993-94, capital was infused in the banks by issue of special securities. To date, government has injected Rs 16,809 crore into nationalised banks. Adding the perpetual securities issued earlier, the total net capital support stands at Rs 22,808 crore. Thanks to the capital support, a sound banking sector meeting international norms has emerged. We have reached a stage when we can strengthen the banks. Accordingly, after consulting the RBI, I propose to unwind the special securities through conversion of these non-tradable special securities into tradable, SLR government of India dated securities. This will facilitate increased access of the banks to additional resources for lending to the productive sectors in the light of the increasing credit needs of the economy.  
Honourable Members are aware that the K.P. Narasimhan Committee was appointed to recommend a comprehensive law on insurance. The report of the committee has been received, and is being examined by the Insurance Regulatory and Development Authority and the government. I intend to introduce a comprehensive Bill on insurance in 2006-07.

Important Bills to amend the banking laws and for setting up the Pension Fund Regulatory and Development Authority are before Parliament. The Standing Committee on Finance has recommended these Bills. I would urge Honourable Members to cooperate with the government and pass these Bills.

**Capital Market**  
In recent months, the capital market has attracted a great deal of attention. The measures taken in the last year and a-half have deepened, broadened and strengthened the market. It is necessary to take more measures. Hence, I propose to:  
■ Increase the limit on FII investment in government securities from \$1.75 billion to \$2 billion and the limit on FII investment in corporate debt from \$ 0.5 billion to \$1.5 billion;  
■ To raise the ceiling on aggregate investment by mutual funds in overseas instruments from \$1 billion to \$2 billion and to remove the requirement of 10% reciprocal share holding;  
■ To allow a limited number of qualified Indian mutual funds to invest, cumulatively up to \$1 billion, in overseas exchange traded funds; and  
■ To set up an investor protection fund under the aegis of SEBI, funded by fines and penalties recovered by SEBI. This will bolster confidence among retail investors who should be the key drivers of the capital market.

Consultations have been held in this behalf with RBI and SEBI, who will issue the guidelines. I would like to mention that the RBI has introduced the anonymous electronic order matching trading module called NDS-OM on its Negotiated Dealing System. In the first phase, RBI-regulated entities, banks and primary dealers were allowed to trade on the system. The system has now been extended to all insurance entities. In view of the encouraging response of market participants and to further deepen the government securities market, it is proposed to extend access to qualified mutual funds, provident funds and pension funds. In my Budget speech last year, I had appointed a high-level expert committee on corporate bonds. The committee has submitted its report and government has accepted the recommendations. We shall now take steps to create a single, unified exchange-traded market for corporate bonds.

**OTHER PROPOSALS**  
**Research and Development**  
Our outstanding human resources have the capacity to make India a Knowledge Society, government accords high importance to research and development. The National Agricultural Innovation Project for research at the frontiers of agricultural science is expected to receive multilateral assistance shortly, and will be launched in July, 2006. The National 55T Entrepreneurship Board has set up a number of Technology Business Incubators with seed funding from the Technology Development Board, government will be happy to provide enabling concessions to the incubatee-entrepreneurs.

**Institutions of Excellence**  
Last year, I made a beginning with an unprecedented grant of Rs 100 crore to the Indian Institute of Science (IISc), Bangalore to help develop it into a world-class institution. I am happy to report that the IISc has obtained approval for an ambitious programme of modernisation, and is implementing the same. This year, I must recognise another historical event. Three great Universities have entered their 150<sup>th</sup> year. These are the University of Calcutta, the University of Mumbai and the University of Madras. I propose to mark the beginning of the 150<sup>th</sup> year celebrations with a grant of Rs 50 crore to each University for a specified research department or a research programme in that University. On the conclusion of the year, I intend to make another grant of Rs 50 crore to each of them. I propose to make the special grant of Rs 100 crore for an institution of excellence to a distinguished institution, the Punjab Agricultural University, Ludhiana, in acknowledgement of its pioneering contribution to the green revolution. If agriculture is an ancient Indian skill, biotechnology is the new frontier that India will conquer. In order to foster research and development in biotechnology, the Ministry of Science and Technology has decided to accord the status of an autonomous National Institute to the Rajiv Gandhi Centre for Biotechnology, Trivandrum, Kerala.

**Skills Development**  
Honourable Members will recall that government has taken up a programme to upgrade 500 ITIs over five years. 100 ITIs are now covered with the help

of the private sector. Assistance has been sought from multilateral agencies to cover the remaining 400 ITIs. I propose to allocate Rs 97 crore for this purpose in 2006-07. The Skills Development Initiative (SDI) announced last year has been taken up through a PPP scheme, and I propose to make an initial provision of Rs 10 crore.

**Backward Regions Grant Fund**  
Upon the establishment of a Backward Regions Grant Fund, a sum of Rs 1,156 crore has been disbursed so far in the current year to the districts identified as backward as well as under Rashtriya Sam Vikas Yojana (RSVY). The Fund is being placed under the administrative control of the Ministry of Panchayati Raj, and I propose to allocate Rs 5,000 crore in 2006-07.

**Jammu and Kashmir**  
government will continue to provide special assistance to Jammu and Kashmir. The State Plan for 2006-07 has been fixed at Rs 2,300 crore. In addition, I propose to provide a sum of Rs 848 crore for the J&K Reconstruction Plan, including Rs 230 crore for the Baglihar Project. I also propose to provide special central Plan assistance of Rs 1,300 crore to enable the State to undertake reforms in the power sector.

**Defence Expenditure**  
government has fulfilled the long-standing need of retired Armed Forces Personnel Below Officer Rank (PBOR) for better pensionary benefits. About 12 lakh PBOR have benefited to the tune of Rs 460 crore with effect from January 1, 2006, and I am sure the House will welcome this decision.  
How to enhance expenditure on modernisation of defence forces, I propose to increase the allocation for defence from Rs 83,000 crore to Rs 89,000 crore in 2006-07, and this will include Rs 37,458 crore for capital expenditure.

**e-Governance**  
The National e-Governance Plan will be approved shortly, and 25 projects, in mission mode, will be launched in 2006-07. Among them is Project MCA 21 to enable companies to file returns electronically and a project for setting up common service centres and assigning unique ID to BPL families. It is government's intention to bring a number of services online, in a web-based mode, including applications under the Right to Information Act, applications for house sites, ration cards, transfers of teachers, inclusion in the electoral roll, filing of police complaints, and issue of birth/death certificates and copies of land records.

**Celebrating History and Heritage**  
In 2007, we will celebrate the 150<sup>th</sup> anniversary of the First War of Indian Independence, an event that shaped the destiny of the nation. To ensure that the event is observed in a befitting manner, I propose to make a provision of Rs 10 crore for preparatory activities. Two Gandhian institutions, the National Gandhi Museum, Rajghat and the Kasturba Gandhi National Memorial Fund, Indore deserve support. I intend to provide Rs 5 crore each to the corpus of these institutions in 2006-07. I am happy to inform the House that Kuttiyattam, Vedic Chanting and Ramlika have been declared 'Oral and Intangible Heritage of Humanity' by the UNESCO. These old art forms and oral traditions need to be safeguarded. Pending drawing up a detailed scheme, I propose to make an initial provision of Rs 5 crore in 2006-07.

**FISCAL CONSOLIDATION**  
**Twelfth Finance Commission**  
The recommendations of the Twelfth Finance Commission (TFC) are being implemented. Cumulatively, State loans amounting to Rs 103,710 crore have been consolidated so far. Under the new scheme of tax devolution, Rs 94,402 crore will be released as the States' share in the current year compared to Rs 78,595 crore in 2004-05. As regards grants-in-aid, the amounts granted in 2004-05 and 2005-06 (RE) are Rs 12,081 crore and Rs 25,134 crore respectively. In 2006-07, both the tax devolution and the grants will be substantially higher. The States have never been so well provided, as they will find from the Budget papers. I may add that I have made appropriate provision in the Budget for debt consolidation and relief. I have also provided Rs 3,000 crore towards compensation for VAT losses, if any, in 2006-07.

**Subsidies**  
The issue of subsidies is proving to be a divisive one, but I would urge Honourable Members that it is imperative that we make progress on this front if we are serious about targeting subsidies at the poor and the truly needy. My Ministry has held extensive discussions with stakeholders from three major subsidies, namely, food, fertiliser and petroleum. We have also sought the views of the general public. Working groups/committees have gone into the question of fertiliser and petroleum subsidies, the latest being the Dr. C. Rangarajan Committee. I would urge Members to help the government secure a consensus on the issue of subsidies.  
**Gross Budgetary Support and Gross Fiscal Deficit**  
Mr Speaker, Sir, please allow me to draw your attention to two path breaking developments on the fiscal front. Firstly, the strategy of enhanced revenue mobilization through reasonable rates, better compliance and widening of the tax base is yielding tangible results. For the Centre, the gross tax-GDP ratio, after rising from 9.2% in 2003-04 to 9.8% in 2004-05, has increased further to 10.5% in 2005-06 (RE). Government estimates that, through better tax administration, it will increase to 11.2% in 2006-07 (BE). Secondly, the year 2004-05, for which the actuals are available, has proved to be a turning point. After 20 years, the Gross Fiscal Deficit is less than the Gross Budgetary Support for Plan in that year. What does this mean? This means that government is not financing the Plan entirely through borrowing. Whether this trend continued in 2005-06 will be known only after the actuals are available. However, in the BE for 2006-07, I have been able to confine the gross fiscal deficit to a number much smaller than the gross budgetary support for the Plan. Last year, reluctantly, I pressed the 'pause' button on fiscal correction. I had estimated the revenue deficit for 2005-06 at 2.7%, and the fiscal deficit at 4.3%. I am happy to report that I have been proved wrong. We have improved upon both measures. According to revised estimates, the revenue deficit for the current year will be only 2.6% and the fiscal deficit will be only 4.1%.

**BUDGET ESTIMATES FOR 2006-07**  
I turn to the Budget Estimates for the next fiscal.  
**Plan Expenditure**  
Plan expenditure for 2006-07 is estimated at Rs 172,728 crore, up by 20.4%. As a proportion of total expenditure, Plan expenditure has increased from 26.6% in 2004-05 to 28.3% in 2005-06 (RE) and further to 30.6% in 2006-07 (BE). This points to the improvement in the quality of government expenditure.

**Non-Plan Expenditure**  
Non-Plan expenditure in 2006-07 is estimated to be Rs 391,263 crore. The increase of 5.5% over non-plan expenditure in 2005-06 (BE) is due to normal growth and is one of the smallest in recent years.

**Revenue Deficit and Fiscal Deficit**  
Mr Speaker, Sir, in the Budget Estimates for 2006-07, the total expenditure is estimated at Rs 563,991 crore. I estimate total revenue receipts of the Central government at Rs 403,465 crore and the revenue expenditure at Rs 488,192 crore. Consequently, the revenue deficit is estimated at Rs 84,727 crore, which is 2.1% of GDP. The fiscal deficit is estimated at Rs 148,686 crore, which is

3.8% of the GDP. I believe that I have redeemed my promise that the process of fiscal correction will be resumed in 2006-07.

**PART-B**  
**TAX PROPOSALS**  
Mr Speaker, I shall now present my tax proposals. In the UPA government's first Budget, and more so in the second, I had attempted significant tax reforms. The results are encouraging. In 2004-05, gross tax revenues (provisional actuals) increased by 19.9% over the actuals of the previous year and, according to Revised Estimates, in 2005-06, they are expected to increase by 21.4% over the growth rate of the previous year. These figures confirm our belief that we should keep our tax rates moderate and stable.

**Indirect Taxes**  
I shall begin with my proposals on indirect taxes. Firstly, customs duties. In line with the government's policy of reducing customs duties, I propose to reduce the peak rate for non-agricultural products from 15% to 12.5%. I believe that we are now only a short distance away from East Asian rates. As the peak rate comes down, there is a need to reduce the duty on raw materials and intermediates. The duty on primary steel is 5%. I propose to reduce the duty on alloy steel and primary and secondary non-ferrous metals from 10% to 7.5%. This will also be the rate of duty for ferro alloys. In 2004-05, in view of the high international prices of steel, I had reduced the import duty on steel from 15% to 10%. I propose to bring it now only to 8%. As the peak rate comes down, there is a need to reduce the duty on raw materials and intermediates. The duty on primary steel is 5%. I propose to reduce the duty on alloy steel and primary and secondary non-ferrous metals from 10% to 7.5%. This will also be the rate of duty for ferro alloys. In 2004-05, in view of the high international prices of steel, I had reduced the import duty on steel from 15% to 10%. I propose to bring it now only to 8%.

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**Direct Taxes**  
I shall now turn to my proposals on direct taxes. The good news is that there will be no change in the rates of personal income tax or corporate income tax.

The other piece of good news is that no new taxes are being imposed. The one-by-six scheme under the Income Tax Act obligating certain categories of persons to file returns will stand abolished. I propose to marginally revise certain tax rates in the quest for equity. While the corporate tax rate is 30%, the rate under Minimum Alternate Tax (MAT) is only 7.5% of book profits. I propose to increase the rate to 10%, which is still only one-third of the normal rate. I also propose to include long-term capital gains arising out of securities in calculating book profits. I have already allowed MAT-paying companies to take credit for MAT over five years. I propose to extend the period to seven years as well as adjust MAT credit while calculating interest liability.

The rates for the Securities Transaction Tax (STT) were fixed when prices of securities were much lower. Reflecting the increase in implicit capital gains in securities transactions, I propose an increase of 25%, across the board, on all rates of STT. Section 80IA of the Income Tax Act applies to infrastructure facilities. For developing an industrial park the terminal date is March 31, 2006. I propose to extend the period to March 31, 2009. For the power sector, in view of the ultra mega projects, I propose to extend the date to March 31, 2010. Last year, I recast the provisions relating to savings. Fixed deposits were not included. There is a demand that fixed deposits of certain tenure should qualify for tax exemption. I propose to include investments in fixed deposits in scheduled banks for a term of not less than five years in section 80C of the Income Tax Act. I also propose to remove the limit of Rs 10,000 in respect of contribution to certain pension funds in section 80CCC, subject to the overall ceiling of Rs 100,000. I propose to align the definition of open-ended equity-oriented schemes of mutual funds in the Income Tax Act with the definition adopted by SEBI. I also propose to treat open-ended equity-oriented schemes and close-ended equity-oriented schemes on par for the purpose of exemption from dividend distribution tax. I have revisited the exemptions in the Income Tax Act. As a result, I propose to remove the exemption under section 10(23G) which is not relevant when interest rates are moderate. Cooperative banks, like any other bank, are lending institutions and should pay tax on their profits. Primary Agricultural Credit Societies (PACS) and Primary Cooperative Agricultural and Rural Development Banks (PCARDB) stand on a special footing and will continue to be exempt from tax under section 80P of the Income Tax Act. However, I propose to exclude all other cooperative banks from the scope of that section. Section 54EC and section 54ED are tax shelters. I propose to restrict the scope of section 54EC to two institutions, viz. NHAI and REC. For NABARD, SIDBI and NHB, which are banks, we have already opened the route of zero coupon bonds to raise low cost funds. government will, if needed, provide appropriate support to these institutions to enable them to access resources to fulfil their mandate effectively. I also propose to withdraw the benefit of section 54ED, which has become virtually redundant, with effect from April 1, 2006.

The Standing Committee on Finance has expressed concern that many charitable institutions misuse the provisions of the Income Tax Act. I propose to focus on one misuse, namely, receiving anonymous or pseudonymous donations. Accordingly, I propose that anonymous or pseudonymous donations to wholly charitable institutions will be taxed at the highest marginal rate. Such donations to partly religious and partly charitable institutions/trusts will be taxed only if the donation is specifically for an educational or medical purpose. However, I make it clear that such donations to wholly religious institu-

tions and religious trusts will not be covered by the new provision. Members of State Legislatures have explained that their constituency allowances are taxed differently from the constituency allowance received by Members of Parliament. I propose to remove the discrimination and treat them equally. The Permanent Account Number (PAN) of the Department of Income Tax is the critical element in capturing incomes and expenditures. Scrutiny of Annual Information Returns (AIR) on high-value transactions reveals that 60% of the transactions are without quoting PAN. Hence, I propose to take the power to issue PAN *suo motu* in certain cases. I also propose to take the power to direct persons to apply for PAN in certain cases. I propose to notify, in due course, more transactions for which quoting of PAN will be mandatory. I also propose to prescribe a few more transactions to be reported in AIRs.

Last year, I introduced the Banking Cash Transaction Tax (BCTT) has turned out to be a boon, not for the modest revenues it brought which was never its purpose, but for the remarkable trails that it has helped establish. To cite just one example, huge cash withdrawals in a bank branch in Chandni Chowk, noticed through the BCTT, led the Department of Income Tax through three entities which were carrying on the business of purchasing demand drafts to avoid both sales tax and income tax. These entities would deposit the demand drafts in their own accounts and withdraw the cash. In a period of 18 months, they had laundered Rs 1,500 crore. BCTT has also helped the Department to detect bogus bills, accommodation entries, artificial loss claims and dummy firms. I propose to continue the BCTT for some more time until the AIR system is able to capture all significant financial transactions. Fringe Benefit Tax (FBT) was introduced as a revenue raising measure. FBT can be justified on the principles of horizontal equity and vertical equity. Nevertheless, I have reviewed it with an open mind. I have also taken on board the views expressed by the apex chambers of commerce. I propose to make the following changes in chapter XII-B of the Income Tax Act:

- Exclude the expenses on free samples of medicines and of medical equipment distributed to doctors.
- Exclude the expenses incurred on brand ambassador and celebrity endorsement; and
- Prescribe a threshold of Rs 100,000 under section 115WB(1)(c) so that only a contribution by an employer to an approved superannuation fund in excess of Rs 100,000 per year per employee will attract FBT. Under section 80C there is already an exemption up to Rs 100,000 for contribution by an employee to an approved superannuation fund. Honourable Members will note that, under these two provisions, there can now be a tax-exempt contribution up to Rs 200,000 per year for the benefit of an employee. This allowance, I believe, is generous enough in the case of an overwhelming majority of employees. With these changes, I am confident that the debate on FBT will draw to a close. Let the remaining everyone concerned with the issue of FBT be satisfied on the principle of equity.


**Modernising Tax Administration**  
I am glad to inform the House that technology is being increasingly employed to modernize tax administration. The Departments of Income Tax and Customs and Central Excise will undergo Business Process Reengineering (BPR). Nationwide networks will connect 745 income tax offices in 510 cities and 550 customs and central excise offices in 245 cities, creating national databases. National data centres, data warehousing facilities and disaster recovery sites are being set up. Jurisdiction-free filing of returns, online tracking of status of accounts and refunds of income tax will be possible. Introduction of a risk management system and Electronic Data Interchange (EDI) in the customs department will reduce dwell time for cargo. E-payments of customs and excise duties will be possible. Both Departments will have fully computerised networks by end 2006. Our government's two Budgets have seen many innovations – the Gender Budget, the Outcome Budget etc. Today, I place before the House another innovation – a statement on revenue foregone, known worldwide as tax expenditure statement. This statement captures the departures from the normal tax regime. This exercise is a first attempt that will be fine-tuned in the years to come.

**VAT and CST**  
The House is aware that most States have implemented VAT with effect from April 1, 2005, and the unanimous opinion is that VAT has been a resounding success. I hope that the non-VAT States will soon join the mainstream, because the next stage of the reform depends on all States implementing VAT. The Empowered Committee of State Finance Ministers has recommended that Central Sales Tax (CST) be phased out, and have requested the Centre to compensate them for the expected loss of revenue. government has proposed that the loss of revenue may be compensated through monetary and non-monetary measures which, taken together, will ensure that the States' revenues remain buoyant. Once the Empowered Committee and the government reach an agreement, I shall return to the House with firm proposals, including legislative changes and a supplementary demand. In the meanwhile, there is an urgent matter connected with CST and VAT which has to be attended to. It has become imperative to moderate the price of Liquefied Petroleum Gas (LPG) for domestic use. States are taxing LPG (domestic) at high rates. They should also bear a portion of the burden of high prices of petroleum products. Hence, in order to moderate the price of LPG (domestic), I propose to include LPG (domestic) in the list of 'declared goods' under the CST Act. My tax proposals on direct taxes are estimated to yield a gain of about Rs 4,000 crore. On the indirect taxes side, the gain is estimated at Rs 2,000 crore.

**CONCLUSION**  
Mr Speaker, Sir, I believe that the world has recognised the potential of India. It is now for us, the generation to which has been given the privilege of carrying the torch, to rediscover the greatness of this country and potential of its people. The young people of India are building castles. It may appear that those castles are in the air; but as Henry David Thoreau said: "If you have built castles in the air, your work need not be lost; that is where they should be. Next put the foundations under them." It is our duty to put the foundations on which the young can build their castles. The UPA government has pledged itself to that task. Over 100 years ago, a restless young man in his quest for the core of all spiritually admonished his fellow men in the following words: "We reap what we sow. We are the makers of our own fate. The wind is blowing; these vessels whose sails are unfurled catch it, and go forward on their way, but those which have their sails furled do not catch the wind. Is that the fault of the wind? We make our own destiny." Those are the immortal words of Swami Vivekananda. Let us believe in our destiny; let us make our future.

Sir, with these words, I commend the Budget to the House.

## Enabling Rural India harvest progress and reap prosperity



**NABARD**  
National Bank for Agriculture and Rural Development

Invest in NABARD Capital Gains Bonds with interest rates up to 5.6%















# Finance Bill

(iii) In the case of every individual, being a resident in India, who is of the age of sixty-five years or more at any time during the previous year,—

Rates of income-tax	
(1) where the total income does not exceed Rs. 1,85,000	Nil.
(2) where the total income exceeds Rs. 1,85,000 but does not exceed Rs. 2,50,000	20 per cent. of the amount by which the total income exceeds Rs. 1,85,000;
(3) where the total income exceeds Rs. 2,50,000	Rs. 13,000 plus 30 per cent. of the amount by which the total income exceeds Rs. 2,50,000.

**Surcharge on income-tax**  
The amount of income-tax computed in accordance with the preceding provisions of this Paragraph, or in section 111A or section 112, shall,—  
(i) in the case of every individual or Hindu undivided family or association of persons or body of individuals having a total income exceeding ten lakh rupees, be reduced by the amount of rebate of income-tax calculated under Chapter VIII-A, and the income-tax as so reduced, be increased by a surcharge for purposes of the Union calculated at the rate of ten per cent. of such income-tax;  
(ii) in the case of every person, other than those mentioned in item (i), be increased by a surcharge for purposes of the Union calculated at the rate of ten per cent. of such income-tax.  
Provided that in case of persons mentioned in item (i) above having a total income exceeding ten lakh rupees, the total amount payable as income-tax and surcharge on such income shall not exceed the total amount payable as income-tax on a total income of ten lakh rupees by more than the amount of income that exceeds ten lakh rupees.

**Paragraph B**  
In the case of every co-operative society,—

Rates of income-tax	
(1) where the total income does not exceed Rs. 10,000	10 per cent. of the total income;
(2) where the total income exceeds Rs. 10,000 but does not exceed Rs. 20,000	Rs. 1,000 plus 20 per cent. of the amount by which the total income exceeds Rs. 10,000;
(3) where the total income exceeds Rs. 20,000	Rs. 3,000 plus 30 per cent. of the amount by which the total income exceeds Rs. 20,000.

**Paragraph C**  
In the case of every firm,—

Rate of income-tax	
On the whole of the total income	30 per cent.

**Paragraph D**  
The amount of income-tax computed at the rate hereinbefore specified, or in section 111A or section 112, shall, in the case of every firm, be increased by a surcharge for purposes of the Union calculated at the rate of ten per cent. of such income-tax.

**Paragraph E**  
In the case of every local authority,—

Rate of income-tax	
On the whole of the total income	30 per cent.

**Paragraph F**  
In the case of a company,—

Rates of income-tax	
I. In the case of a domestic company	30 per cent. of the total income;
II. In the case of a company other than a domestic company—	

(i) on so much of the total income as consists of—  
(A) royalties received from Government or an Indian concern in pursuance of an agreement made by it with the Government or the Indian concern after the 31st day of March, 1961 but before the 1st day of April, 1976; or  
(B) fees for rendering technical services received from Government or an Indian concern in pursuance of an agreement made by it with the Government or the Indian concern after the 29th day of February, 1964 but before the 1st day of April, 1976, and where such agreement has, in either case, been approved by the Central Government 50 per cent.;  
(ii) on the balance, if any, of the total income 40 per cent.

**Surcharge on income-tax**  
The amount of income-tax computed in accordance with the preceding provisions of this Paragraph, or in section 111A or section 112, shall, in the case of every company, be increased by a surcharge for purposes of the Union calculated,—  
(i) in the case of every domestic company at the rate of ten per cent. of such income-tax;  
(ii) in the case of every company other than a domestic company at the rate of two and one-half per cent. of such income-tax.

**PART II**  
**RATES FOR DEDUCTION OF TAX AT SOURCE IN CERTAIN CASES**  
In every case in which under the provisions of sections 193, 194, 194A, 194B, 194D and 195 of the Income-tax Act, tax is to be deducted at the rates in force, deduction shall be made from the income subject to the deduction at the following rates:—

1. In the case of a person other than a company—

Rate of income-tax	
(a) where the person is resident in India—	
(i) on income by way of interest other than "Interest on securities"	10 per cent.;
(ii) on income by way of winnings from lotteries, crossword puzzles, card games and other games of any sort	30 per cent.;
(iii) on income by way of winnings from horse races	30 per cent.;
(iv) on income by way of insurance commission	10 per cent.;
(v) on income by way of interest payable on—	

(A) any debentures or securities other than a security of the Central or State Government for money issued by or on behalf of any local authority or a corporation established by a Central, State or Provincial Act;  
(B) any debentures issued by a company where such debentures are listed on a recognised stock exchange in India in accordance with the Securities Contracts (Regulation) Act, 1956 (42 of 1956) and any rules made thereunder  
(v) on any other income 20 per cent.;

(b) where the person is not resident in India—  
(i) in the case of a non-resident Indian—  
(A) on any investment income 10 per cent.;

(B) on income by way of long-term capital gains referred to in section 115E 10 per cent.;

(C) on income by way of short-term capital gains referred to in section 111A 10 per cent.;

(D) on other income by way of long-term capital gains [not being long-term capital gains referred to in clauses (3), (36) and (38) of section 10] 20 per cent.;

(E) on income by way of interest payable by Government or an Indian concern on moneys borrowed or debt incurred by Government or the Indian concern in foreign currency 20 per cent.;

(F) on income by way of royalty payable by Government or an Indian concern in pursuance of an agreement made by it with the Government or the Indian concern where such royalty is in consideration for the transfer of all or any rights (including the granting of a licence) in respect of copyright in any book on a subject referred to in the first proviso to sub-section (1A) of section 115A of the Income-tax Act, to the Indian concern, or in respect of any computer software referred to in the second proviso to sub-section (1A) of section 115A of the Income-tax Act, to a person resident in India— 20 per cent.;

(G) where the agreement is made on or after the 1st day of June, 1997 but before the 1st day of June, 2005 20 per cent.;

(H) where the agreement is made on or after the 1st day of June, 1997 but before the 1st day of June, 2005 10 per cent.;

(I) on income by way of royalties [not being royalties of the nature referred to in sub-item (b) (i) (F)] payable by Government or an Indian concern in pursuance of an agreement made by it with the Government or the Indian concern and where such agreement is with an Indian concern, the agreement is approved by the Central Government or where it relates to a matter included in the industrial policy, for the time being in force, of the Government of India, the agreement is in accordance with that policy— 20 per cent.;

(J) where the agreement is made on or after the 1st day of June, 1997 but before the 1st day of June, 2005 20 per cent.;

(K) where the agreement is made on or after the 1st day of June, 2005 10 per cent.;

(L) on income by way of interest payable by Government or an Indian concern on moneys borrowed or debt incurred by Government or the Indian concern in foreign currency 20 per cent.;

(M) on income by way of royalty payable by Government or an Indian concern in pursuance of an agreement made by it with the Government or the Indian concern where such royalty is in consideration for the transfer of all or any rights (including the granting of a licence) in respect of copyright in any book on a subject referred to in the first proviso to sub-section (1A) of section 115A of the Income-tax Act, to the Indian concern, or in respect of any computer software referred to in the second proviso to sub-section (1A) of section 115A of the Income-tax Act, to a person resident in India— 20 per cent.;

(N) where the agreement is made on or after the 1st day of June, 1997 but before the 1st day of June, 2005 20 per cent.;

(O) where the agreement is made on or after the 1st day of June, 2005 10 per cent.;

(P) on income by way of royalties [not being royalties of the nature referred to in sub-item (b) (i) (F)] payable by Government or an Indian concern in pursuance of an agreement made by it with the Government or the Indian concern and where such agreement is with an Indian concern, the agreement is approved by the Central Government or where it relates to a matter included in the industrial policy, for the time being in force, of the Government of India, the agreement is in accordance with that policy— 20 per cent.;

(Q) where the agreement is made on or after the 1st day of June, 1997 but before the 1st day of June, 2005 20 per cent.;

(R) where the agreement is made on or after the 1st day of June, 2005 10 per cent.;

(S) on income by way of fees for technical services payable by Government or an Indian concern in pursuance of an agreement made by it with the Government or the Indian concern and where such agreement is with an Indian concern, the agreement is approved by the Central Government or where it relates to a matter included in the industrial policy, for the time being in force, of the Government of India, the agreement is in accordance with that policy— 20 per cent.;

(T) where the agreement is made on or after the 1st day of June, 1997 but before the 1st day of June, 2005 20 per cent.;

(U) where the agreement is made on or after the 1st day of June, 2005 10 per cent.;

(V) on income by way of royalties [not being royalties of the nature referred to in sub-item (b) (i) (F)] payable by Government or an Indian concern in pursuance of an agreement made by it with the Government or the Indian concern and where such agreement is with an Indian concern, the agreement is approved by the Central Government or where it relates to a matter included in the industrial policy, for the time being in force, of the Government of India, the agreement is in accordance with that policy— 20 per cent.;

(W) where the agreement is made on or after the 1st day of June, 1997 but before the 1st day of June, 2005 20 per cent.;

(X) where the agreement is made on or after the 1st day of June, 2005 10 per cent.;

(Y) on income by way of royalties [not being royalties of the nature referred to in sub-item (b) (i) (F)] payable by Government or an Indian concern in pursuance of an agreement made by it with the Government or the Indian concern and where such agreement is with an Indian concern, the agreement is approved by the Central Government or where it relates to a matter included in the industrial policy, for the time being in force, of the Government of India, the agreement is in accordance with that policy— 20 per cent.;

(Z) where the agreement is made after the 31st day of March, 1961 but before the 1st day of April, 1976 50 per cent.;

(AA) where the agreement is made after the 31st day of March, 1976 but before the 1st day of June, 1997 30 per cent.;

(AB) where the agreement is made on or after the 1st day of June, 1997 but before the 1st day of June, 2005 20 per cent.;

(D) where the agreement is made on or after the 1st day of June, 2005 10 per cent.;

(v) on income by way of fees for technical services payable by Government or an Indian concern in pursuance of an agreement made by it with the Government or the Indian concern and where such agreement is with an Indian concern, the agreement is approved by the Central Government or where it relates to a matter included in the industrial policy, for the time being in force, of the Government of India, the agreement is in accordance with that policy— 50 per cent.;

(A) where the agreement is made after the 29th day of February, 1964 but before the 1st day of April, 1976 30 per cent.;

(B) where the agreement is made after the 31st day of March, 1976 but before the 1st day of June, 1997 30 per cent.;

(C) where the agreement is made on or after the 1st day of June, 1997 but before the 1st day of June, 2005 20 per cent.;

(D) where the agreement is made on or after the 1st day of June, 2005 10 per cent.;

(vii) on income by way of short-term capital gains referred to in section 111A 10 per cent.;

(viii) on income by way of long-term capital gains [not being long-term capital gains referred to in clauses (3), (36) and (38) of section 10] 20 per cent.;

(ix) on any other income 40 per cent.;

**Explanation.**—For the purpose of item 1 (b) (i) of this Part, "investment income" and "non-resident Indian" shall have the meanings assigned to them in Chapter XII-A of the Income-tax Act.

**Surcharge on income-tax**  
The amount of income-tax deducted in accordance with the provisions of—  
(A) item 1 of this Part, shall be increased by a surcharge, for purposes of the Union, calculated—  
(i) in the case of every individual, Hindu undivided family, association of persons and body of individuals, whether incorporated or not, at the rate of ten per cent. of such tax where the income or the aggregate of such incomes paid or likely to be paid and subject to the deduction exceeds ten lakh rupees;  
(ii) in the case of every firm and artificial juridical person referred to in sub-clause (vii) of clause (3) of section 2 of the Income-tax Act, at the rate of ten per cent. of such tax;

(B) item 2 of this Part, shall be increased by a surcharge, for purposes of the Union, calculated—  
(i) in the case of every domestic company at the rate of ten per cent. of such income-tax;  
(ii) in the case of every company other than a domestic company at the rate of two and one-half per cent. of such income-tax.

**PART III**  
**RATES FOR CHARGING INCOME-TAX IN CERTAIN CASES, DEDUCTING INCOME-TAX FROM INCOME CHARGEABLE UNDER THE HEAD "SALARIES" AND COMPUTING "ADVANCE TAX"**

In cases in which income-tax has to be charged under sub-section (4) of section 172 of the Income-tax Act or sub-section (2) of section 174 or section 174A or section 175 or sub-section (2) of section 176 of the said Act or deducted from, or paid on, from income chargeable under the head "Salaries" under section 192 of the said Act or in which the "advance tax" payable under Chapter XVII-C of the said Act has to be computed at the rate or rates in force, such income-tax or, as the case may be, "advance tax" [not being "advance tax" in respect of any income chargeable to tax under Chapter XII or Chapter XII-A or fringe benefits chargeable to tax under Chapter XII-B or income chargeable to tax under section 115B or sub-section (1A) of section 161 or section 164 or section 164A or section 167B of the Income-tax Act at the rates as specified in that Chapter or section or surcharge on such "advance tax" in respect of any income chargeable to tax under section 115A or section 115AC or section 115AD or section 115B or section 115BB or section 115BA or section 115BBB or section 115E or section 115B or fringe benefits chargeable to tax under section 115VA] shall be charged, deducted or computed at the following rate or rates:—

(i) In the case of every individual other than the individual referred to in items (I) and (II) of this Paragraph or Hindu undivided family or association of persons or body of individuals, whether incorporated or not, or every artificial juridical person referred to in sub-clause (vii) of clause (3) of section 2 of the Income-tax Act, not being a case to which any other Paragraph of this Part applies,—

**Rates of income-tax**  
(1) where the total income does not exceed Rs. 1,00,000 Nil.

(2) where the total income exceeds Rs. 1,00,000 but does not exceed Rs. 1,50,000 10 per cent. of the amount by which the total income exceeds Rs. 1,00,000;

(3) where the total income exceeds Rs. 1,50,000 but does not exceed Rs. 2,50,000 Rs. 5,000 plus 20 per cent. of the amount by which the total income exceeds Rs. 1,50,000;

(4) where the total income exceeds Rs. 2,50,000 Rs. 25,000 plus 30 per cent. of the amount by which the total income exceeds Rs. 2,50,000.

(II) In the case of every individual, being a woman resident in India, and below the age of sixty-five years at any time during the previous year,—

**Rates of income-tax**  
(1) where the total income does not exceed Rs. 1,35,000 Nil.

(2) where the total income exceeds Rs. 1,35,000 but does not exceed Rs. 1,50,000 10 per cent. of the amount by which the total income exceeds Rs. 1,35,000;

(3) where the total income exceeds Rs. 1,50,000 but does not exceed Rs. 2,50,000 Rs. 1,500 plus 20 per cent. of the amount by which the total income exceeds Rs. 1,50,000;

(4) where the total income exceeds Rs. 2,50,000 Rs. 21,500 plus 30 per cent. of the amount by which the total income exceeds Rs. 2,50,000.

(III) In the case of every individual, being a resident in India, who is of the age of sixty-five years or more at any time during the previous year,—

**Rates of income-tax**  
(1) where the total income does not exceed Rs. 1,85,000 Nil.

(2) where the total income exceeds Rs. 1,85,000 but does not exceed Rs. 2,50,000 20 per cent. of the amount by which the total income exceeds Rs. 1,85,000;

(3) where the total income exceeds Rs. 2,50,000 Rs. 13,000 plus 30 per cent. of the amount by which the total income exceeds Rs. 2,50,000.

**Surcharge on income-tax**  
The amount of income-tax computed in accordance with the preceding provisions of this Paragraph or in section 111A or section 112 shall,—  
(i) in the case of every individual or Hindu undivided family or association of persons or body of individuals having a total income exceeding ten lakh rupees, be reduced by the amount of rebate of income-tax calculated under Chapter VIII-A, and the income-tax as so reduced, be increased by a surcharge for purposes of the Union calculated at the rate of ten per cent. of such income-tax;  
(ii) in the case of every person, other than those mentioned in item (i), be increased by a surcharge for purposes of the Union calculated at the rate of ten per cent. of such income-tax.

Provided that in case of persons mentioned in item (i) above having a total income exceeding ten lakh rupees, the total amount payable as income-tax and surcharge on such income shall not exceed the total amount payable as income-tax on a total income of ten lakh rupees by more than the amount of income that exceeds ten lakh rupees.

**Paragraph B**  
In the case of every co-operative society,—

**Rates of income-tax**  
(1) where the total income does not exceed Rs. 10,000 10 per cent. of the total income;

(2) where the total income exceeds Rs. 10,000 but does not exceed Rs. 20,000 Rs. 1,000 plus 20 per cent. of the amount by which the total income exceeds Rs. 10,000;

(3) where the total income exceeds Rs. 20,000 Rs. 3,000 plus 30 per cent. of the amount by which the total income exceeds Rs. 20,000.

**Paragraph C**  
In the case of every firm,—

**Rate of income-tax**  
On the whole of the total income 30 per cent.

**Surcharge on income-tax**  
The amount of income-tax computed at the rate hereinbefore specified, or in section 111A or section 112, shall, in the case of every firm, be increased by a surcharge for purposes of the Union calculated at the rate of ten per cent. of such income-tax.

**Paragraph D**  
In the case of every local authority,—

**Rate of income-tax**  
On the whole of the total income 30 per cent.

**Paragraph E**  
In the case of a company,—

**Rates of income-tax**  
I. In the case of a domestic company 30 per cent. of the total income;

II. In the case of a company other than a domestic company—

(i) on so much of the total income as consists of—  
(A) royalties received from Government or an Indian concern in pursuance of an agreement made by it with the Government or the Indian concern after the 31st day of March, 1961 but before the 1st day of April, 1976; or  
(B) fees for rendering technical services received from Government or an Indian concern in pursuance of an agreement made by it with the Government or the Indian concern after the 29th day of February, 1964 but before the 1st day of April, 1976, and where such agreement has, in either case, been approved by the Central Government 50 per cent.;

(ii) on the balance, if any, of the total income 40 per cent.;

**Surcharge on income-tax**  
The amount of income-tax computed in accordance with the preceding provisions of this Paragraph, or in section 111A or section 112, shall, in the case of every company, be increased by a surcharge for purposes of the Union calculated,—  
(i) in the case of every domestic company at the rate of ten per cent. of such income-tax;  
(ii) in the case of every company other than a domestic company at the rate of two and one-half per cent. of such income-tax.

**PART IV**  
[See section 2(12)(c)]  
**RULES FOR COMPUTATION OF NET AGRICULTURAL INCOME**

**Rule 1.**—Agricultural income of the nature referred to in clause (a) of section 2 of the Income-tax Act shall be computed as if it were income chargeable to income-tax under that Act under the head "Income from other sources" and the provisions of sections 57 to 59 of that Act shall, so far as may be, apply accordingly.

Provided that sub-section (2) of section 58 shall apply subject to the modification that the reference to section 40A therein shall be construed as not including a reference to sub-sections (i) and (ii) of section 40A.

**Rule 2.**—Agricultural income of the nature referred to in sub-clause (b) or sub-clause (c) of clause (1A) of section 2 of the Income-tax Act [other than income derived from any building required as a dwelling-house by the receiver of the rent or revenue of the cultivator or the receiver of rent-in-kind referred to in the said sub-clause (c)] shall be computed as if it were income chargeable to income-tax under that Act under the head "Profits and gains of business or profession" and the provisions of sections 30, 31, 32, 36, 37, 38, 40, 40A [other than sub-sections (3) and (4) thereof], 41, 43, 43A, 43B and 43C of the Income-tax Act shall, so far as may be, apply accordingly.

**Rule 3.**—Agricultural income of the nature referred to in sub-clause (c) of clause (1A) of section 2 of the Income-tax Act, being income derived from any building required as a dwelling-house by the receiver of the rent or revenue of the cultivator or the receiver of rent-in-kind referred to in the said sub-clause (c) shall be computed as if it were income chargeable to income-tax under that Act under the head "Income from house property" and the provisions of sections 23 to 27 of that Act shall, so far as may be, apply accordingly.

**Rule 4.**—Notwithstanding anything contained in any other provisions of these rules, in a case—  
(a) where the assessee derives income from sale of tea grown and manufactured by him in India, such income shall be computed in accordance with rule 8 of the Income-tax Rules, 1962, and sixty per cent. of such income shall be regarded as the agricultural income of the assessee;

(b) where the assessee derives income from sale of centrifuged latex or crepe or latex based crepes (such as pale latex crepe) or brown crepes (such as estate brown crepe, re-milled crepe, smoked blanket crepe or flat bark crepe) of technically specified block rubbers manufactured or processed by him from rubber plants grown by him in India, such income shall be computed in accordance with rule 7A of the Income-tax Rules, 1962, and sixty-five per cent. of such income shall be regarded as the agricultural income of the assessee;

(c) where the assessee derives income from sale of coffee grown and manufactured by him in India, such income shall be computed in accordance with rule 7B of the Income-tax Rules, 1962, and sixty per cent. or seventy-five per cent., as the case may be, of such income shall be regarded as the agricultural income of the assessee.

**Rule 5.**—Where the assessee is a member of an association of persons or a body of individuals (other than a Hindu undivided family, a company or a firm) which has total income not exceeding the maximum amount not chargeable to tax in the case of an association of persons or a body of individuals (other than a Hindu undivided family, a company or a firm) but has any agricultural income then the agricultural income or loss of the association or body shall be computed in accordance with these rules and the share of the assessee in the agricultural income or loss so computed shall be regarded as the agricultural income or loss of the assessee.

**Rule 6.**—Where the result of the computation for the previous year in respect of any source of agricultural income is a loss, such loss shall be set off against the income of the assessee, if any, for that previous year from any other source of agricultural income.  
Provided that where the assessee is a member of an association of persons or a body of individuals and the share of the assessee in the agricultural income of the association or body, as the case may be, is a loss, such loss shall not be set off against any income of the assessee from any other source of agricultural income.

**Rule 7.**—Any sum payable by the assessee on account of any tax levied by the State Government on the agricultural income shall be deducted in computing the agricultural income.

**Rule 8.**—(1) Where the assessee has, in the previous year relevant to the assessment year commencing on the 1st day of April, 2006, any agricultural income and the net result of the computation of the agricultural income of the assessee for any one or more of the previous years relevant to the assessment years commencing on the 1st day of April, 1998 or the 1st day of April, 1999 or the 1st day of April, 2000 or the 1st day of April, 2001 or the 1st day of April, 2002 or the 1st day of April, 2003 or the 1st day of April, 2004 or the 1st day of April, 2005, is a loss, then, for the purposes of sub-section (2) of section 2 of this Act,—  
(i) the loss so computed for the previous year relevant to the assessment year commencing on the 1st day of April, 1998, to the extent, if any, such loss has not been set off against the agricultural income for the previous year relevant to the assessment year commencing on the 1st day of April, 1999 or the 1st day of April, 2000 or the 1st day of April, 2001 or the 1st day of April, 2002 or the 1st day of April, 2003 or the 1st day of April, 2004 or the 1st day of April, 2005;  
(ii) the loss so computed for the previous year relevant to the assessment year commencing on the 1st day of April, 1999, to the extent, if any, such loss has not been set off against the agricultural income for the previous year relevant to the assessment year commencing on the 1st day of April, 2000 or the 1st day of April, 2001 or the 1st day of April, 2002 or the 1st day of April, 2003 or the 1st day of April, 2004 or the 1st day of April, 2005;  
(iii) the loss so computed for the previous year relevant to the assessment year commencing on the 1st day of April, 2000, to the extent, if any, such loss has not been set off against the agricultural income for the previous year relevant to the assessment year commencing on the 1st day of April, 2001 or the 1st day of April, 2002 or the 1st day of April, 2003 or the 1st day of April, 2004 or the 1st day of April, 2005;  
(iv) the loss so computed for the previous year relevant to the assessment year commencing on the 1st day of April, 2001, to the extent, if any, such loss has not been set off against the agricultural income for the previous year relevant to the assessment year commencing on the 1st day of April, 2002 or the 1st day of April, 2003 or the 1st day of April, 2004 or the 1st day of April, 2005;  
(v) the loss so computed for the previous year relevant to the assessment year commencing on the 1st day of April, 2002, to the extent, if any, such loss has not been set off against the agricultural income for the previous year relevant to the assessment year commencing on the 1st day of April, 2003 or the 1st day of April, 2004 or the 1st day of April, 2005;  
(vi) the loss so computed for the previous year relevant to the assessment year commencing on the 1st day of April, 2003, to the extent, if any, such loss has not been set off against the agricultural income for the previous year relevant to the assessment year commencing on the 1st day of April, 2004 or the 1st day of April, 2005;  
(vii) the loss so computed for the previous year relevant to the assessment year commencing on the 1st day of April, 2004, to the extent, if any, such loss has not been set off against the agricultural income for the previous year relevant to the assessment year commencing on the 1st day of April, 2005.

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# Finance Bill

(69) in Chapter 94, for the entry in column (4) occurring against all the tariff items, the entry "12.5%" shall be substituted;  
 (70) in Chapter 95, for the entry in column (4) occurring against all the tariff items, the entry "12.5%" shall be substituted;  
 (71) in Chapter 96, for the entry in column (4) occurring against all the tariff items, the entry "12.5%" shall be substituted;  
 (72) in Chapter 97, for the entry in column (4) occurring against all the tariff items (except tariff items 9704 00 10, 9704 00 20 and 9704 00 90), the entry "12.5%" shall be substituted;  
 (73) in Chapter 98, for the entry in column (4) occurring against all the tariff items (except tariff item 9803 00 00), the entry "12.5%" shall be substituted.

### THE FIFTH SCHEDULE (See section 66) PART I

In the Third Schedule to the Central Excise Act, —  
 (1) after S.No. 71 and the entries relating thereto, the following S.No., heading and entries shall be inserted, namely:—

S. No.	Heading, sub-heading or tariff item	Description of goods
(1)	(2)	(3)
*71A.	8443	Facsimile machines;
(2)	after S.No.76 and the entries relating thereto, the following S. No., heading and entries shall be inserted, namely:—	
(1)	(2)	(3)
*76A.	8508	Vacuum Cleaners with self contained electric motor;
(3)	against S.No. 77, for the entry in column (3), the following entry shall be substituted, namely:—	
"Electro-mechanical domestic appliances with self contained electric motor, other than vacuum cleaners of heading 8508";		
(4) against S.No. 81, in the entry in column (3), the words "facsimile machines" shall be omitted;		
(5) against S.No. 84, for the entry in column (3), the following entry shall be substituted, namely:—		
"Unrecorded audio cassettes; recorded or unrecorded video cassettes; recorded or unrecorded magnetic discs";		
(6) against S. Nos. 85, 86, 87 and 88, the entries in columns (2) and (3) shall be omitted;		
(7) for S. No. 89 and the entries relating thereto, the following S. No., heading and entries shall be substituted, namely:—		
(1)	(2)	(3)
*89	8525 or 8517	Cellular or mobile phones
89A.	8527	Pagers;

### PART II

In the Third Schedule to the Central Excise Act, after S.No. 99 and the entries relating thereto, the following entries shall be inserted, namely:—

(1)	(2)	(3)
*100.	Any heading	Parts, components and assemblies of automobiles
101.	3808 30 40	Plant-growth regulator
102.	9603 21 00	Toothbrush

### THE SIXTH SCHEDULE (See clause 67(a))

In the First Schedule to the Central Excise Tariff Act,—  
 (1) in Chapter 16, for the entry in column (4) occurring against all the tariff items, the entry "Nil" shall be substituted;  
 (2) in Chapter 19,—  
 (i) in tariff items 1902 11 00, 1902 19 00, 1902 20 10, 1902 20 90, 1902 30 10 and 1902 30 90, for the entry in column (4) occurring against each of them, the entry "Nil" shall be substituted;  
 (ii) in tariff items 1905 31 00, 1905 32 19, 1905 90 10 and 1905 90 20, for the entry in column (4) occurring against each of them, the entry "8%" shall be substituted;  
 (3) in Chapter 21,—  
 (i) in tariff item 2105 00 00, for the entry in column (4), the entry "Nil" shall be substituted;  
 (ii) in tariff item 2106 90 20, for the entry in column (4), the entry "37.5%" shall be substituted;

(4) for the entry in column (4) occurring against all the tariff items of heading 2401, the entry "42%" shall be substituted;  
 (i) in tariff item 2402 20 10, for the entry in column (4), the entry "Rs.125 per thousand" shall be substituted;  
 (ii) in tariff item 2402 20 20, for the entry in column (4), the entry "Rs.415 per thousand" shall be substituted;  
 (iii) in tariff item 2402 20 30, for the entry in column (4), the entry "Rs.620 per thousand" shall be substituted;  
 (iv) in tariff item 2402 20 40, for the entry in column (4), the entry "Rs.1,005 per thousand" shall be substituted;  
 (v) in tariff item 2402 20 50, for the entry in column (4), the entry "Rs.1,340 per thousand" shall be substituted;  
 (vi) in tariff item 2402 20 90, for the entry in column (4), the entry "Rs.1,645 per thousand" shall be substituted;  
 (vii) in tariff item 2403 10 10, for the entry in column (4), the entry "50%" shall be substituted;  
 (viii) in tariff item 2403 10 31, for the entry in column (4), the entry "Rs. 12 per thousand" shall be substituted;  
 (ix) in tariff item 2403 10 39, for the entry in column (4), the entry "Rs. 30 per thousand" shall be substituted;  
 (x) in tariff item 2403 91 00, 2403 99 10, 2403 99 20, 2403 99 30, 2403 99 50, 2403 99 60 and 2403 99 90, for the entry in column (4) occurring against each of them, the entry "50%" shall be substituted;

(5) in Chapter 25,—  
 (i) after Note 5, the following Note shall be inserted, namely:—  
 "6. In relation to products of headings 2515 and 2516, the process of cutting or sawing or sizing or polishing or any other process, for converting of stone blocks into slabs or tiles, shall amount to "manufacture";"  
 (ii) in tariff item 2503 00 10, for the entry in column (4), the entry "16%" shall be substituted;

Tariff Item	Description of goods	Unit	Rate of duty
(1)	(2)	(3)	(4)

(6) in Chapter 28,— (i) in heading 2812,— (a) for tariff item 2812 10 10 and the entries relating thereto, the following shall be substituted, namely:— Phosgene (carbonyl chloride, carbonyl dichloride, carbon oxy-chloride, chloroformyl chloride)	kg.	16%
(b) for tariff item 2812 10 20 and the entries relating thereto, the following shall be substituted, namely:— Phosphorus trichloride and Phosphorus pentachloride	kg.	16%
(c) for tariff item 2812 10 40 and the entries relating thereto, the following shall be substituted, namely:— Sulphur oxychloride, Sulphur monochloride, Sulphur dichloride and Thiophyl chloride	kg.	16%
(d) after tariff item 2812 10 50 and the entries relating thereto, the following shall be inserted, namely:— Arsenous trichloride	kg.	16%
(ii) in heading 2851, for tariff item 2851 00 90 and the entries relating thereto, the following shall be substituted, namely:— Other	kg.	16%
2851 00 91 2851 00 99	kg.	16%
(7) in Chapter 29,— (i) in heading 2903, for tariff item 2903 30 10 and the entries relating thereto, the following shall be substituted, namely:— Fluorinated derivatives: 1-Propene, 1, 1,3,3,3,- Pentafluoro-2-(trifluoromethyl) (PFIB)	kg.	16%
2903 30 11	kg.	16%
2903 30 19	kg.	16%
(ii) in heading 2904, after tariff item 2904 90 70 and the entries relating thereto, the following shall be inserted, namely:— Chloropicrin (Trichloronitro-Methane)	kg.	16%
*2904 90 80	kg.	16%
(iii) in heading 2905, for tariff item 2905 19 00 and the entries relating thereto, the following shall be substituted, namely:— Other	kg.	16%
2905 19 10 2905 19 90	kg.	16%
(iv) in heading 2918, for tariff item 2918 19 00 and the entries relating thereto, the following shall be substituted, namely:— Other	kg.	16%
*2918 19 10	kg.	16%
2918 19 90	kg.	16%
(v) in heading 2920,— (a) for tariff item 2920 10 00 and the entries relating thereto, the following shall be substituted, namely:— Phosphorothioic acid, S [2-(diethylamino) ethyl] O,O- diethyl ester, and Thiophosphoric esters (phosphorothioates) and their salts; their halogenated, sulphonated, nitrated or nitrosated derivatives	kg.	16%
2920 10 10	kg.	16%
(b) for tariff item 2920 10 20 and the entries relating thereto, the following shall be substituted, namely:— Other	kg.	16%
2920 10 41 2920 10 42 2920 10 43 2920 10 45 2920 10 47	kg.	16%
2920 10 48	kg.	16%
2920 10 51	kg.	16%
2920 10 52	kg.	16%
2920 10 53 2920 10 54 2920 10 55 2920 10 56 2920 10 57 2920 10 58 2920 10 61 2920 10 62 2920 10 63 2920 10 64 2920 10 65 2920 10 66 2920 10 99	kg.	16%
(vi) in heading 2921, for tariff item 2921 19 00 and the entries relating thereto, the following shall be substituted, namely:— Other	kg.	16%
*2921 19 11 2921 19 14 2921 19 90	kg.	16%

2922 11 14	Di-Methyl Amino ethyl chloride Hydrochloride	kg.	16%
2922 11 15	Di-Methyl Amino ethanethiol	kg.	16%
2922 11 16	Di-Methyl Amino ethanethiol Hydrochloride	kg.	16%
2922 11 90	Other	kg.	16%
2922 12	Diethanolamine and its salts: Ethylethanolamine and Methyl-diethanolamine	kg.	16%
2922 12 11	Methyl-diethanolamine	kg.	16%
2922 12 90	Other	kg.	16%
(b) for tariff item 2922 19 00 and the entries relating thereto, the following shall be substituted, namely:— Other	kg.	16%	
*2922 19 10	Diethyl amino ethanethiol	kg.	16%
2922 19 20	Ethanol, 2-[(bis(1-methylethyl) amino)- ethanethiol, 2-(diethylamino)-	kg.	16%
2922 19 30	Other	kg.	16%
2922 19 90	Other	kg.	16%
(viii) in heading 2930, for tariff item 2930 90 90 and the entries relating thereto, the following shall be substituted, namely:— Other	kg.	16%	
2930 90 91	Ethanol, 2,2'-thiobis-	kg.	16%
2930 90 99	Other	kg.	16%
(ix) in heading 2933, after tariff item 2933 39 20 and the entries relating thereto, the following shall be inserted, namely:— 1-Azabicyclo(2.2.2) octan-3-ol	kg.	16%	
*2933 39 30	Other	kg.	16%
(x) in heading 2939, for tariff item 2939 29 00 and the entries relating thereto, the following shall be substituted, namely:— Other	kg.	16%	
*2939 29 10	Benzeneacetic acid, alpha -hydroxy-alpha-phenyl, 1- azabicyclo(2.2.2)oct-3-yl ester	kg.	16%
2939 29 90	Other	kg.	16%

(8) in Chapter 32, for Note 7, the following Note shall be substituted, namely:—  
 "7. In relation to products of tariff items 3204 19 81, 3204 19 82, 3204 19 83, 3204 19 84, 3204 19 85, 3204 19 86, 3204 19 87, 3204 19 88, 3204 19 89, 3204 19 90 and products of heading 3206, labelling, re-labelling of containers and re-packing from bulk packs to retail packs or the adoption of any other treatment, to render the product marketable to the consumer, shall amount to "manufacture";"  
 (9) in Chapter 39, after Note 15, the following Note shall be inserted, namely:—  
 "16. In relation to the products of headings 3920 and 3921, the process of metallization shall amount to "manufacture";"  
 (10) in Chapter 50, in tariff items 5004 00 90, 5005 00 21, 5005 00 22, 5006 00 31, 5006 00 32, 5006 00 33 and 5006 00 39, for the entry in column (4) occurring against each of them, the entry "8%" shall be substituted;  
 (11) in Chapter 51, for the entry in column (4) occurring against all the tariff items of headings 5105, 5106, 5107, 5108, 5109, 5110, 5111, 5112 and 5113, the entry "8%" shall be substituted;  
 (12) in Chapter 52, for the entry in column (4) occurring against all the tariff items of headings 5204, 5205, 5206, 5207, 5208, 5209, 5210, 5211 and 5212, the entry "8%" shall be substituted;  
 (13) in Chapter 53,—  
 (i) for the entry in column (4) occurring against all the tariff items of headings 5302 and 5304, the entry "8%" shall be substituted;  
 (ii) for the entry in column (4) occurring against all the tariff items of heading 5305 (except tariff item 5305 90 10), the entry "8%" shall be substituted;  
 (iii) for the entry in column (4) occurring against all the tariff items of heading 5306, the entry "8%" shall be substituted;  
 (iv) in tariff items 5308 20 00, 5308 90 10 and 5308 90 90, for the entry in column (4) occurring against each of them, the entry "8%" shall be substituted;  
 (v) for the entry in column (4) occurring against all the tariff items of headings 5309, 5310 and 5311, the entry "8%" shall be substituted;  
 (14) in Chapter 54, for the entry in column (4) occurring against all the tariff items of headings 5407 and 5408, the entry "8%" shall be substituted;  
 (15) in Chapter 55, for the entry in column (4) occurring against all the tariff items of headings 5508, 5509, 5510, 5511, 5512, 5513, 5514, 5515 and 5516, the entry "8%" shall be substituted;  
 (16) in Chapter 56, for the entry in column (4) occurring against all the tariff items (except tariff items 5601 10 00, 5601 22 00, 5607 10 10, 5607 10 90, 5608 11 10 and 5608 11 90), the entry "8%" shall be substituted;  
 (17) in Chapter 57, for the entry in column (4) occurring against all the tariff items, the entry "8%" shall be substituted;  
 (18) in Chapter 58, for the entry in column (4) occurring against all the tariff items (except tariff items 5804 30 00, 5805 00 10, 5805 00 90, 5807 10 10, 5807 10 20, 5807 10 90, 5807 90 10 and 5807 90 90), the entry "8%" shall be substituted;  
 (19) in Chapter 59, for the entry in column (4) occurring against all the tariff items (except tariff items 5902 10 10 and 5902 10 90), the entry "8%" shall be substituted;  
 (20) in Chapter 60, for the entry in column (4) occurring against all the tariff items, the entry "8%" shall be substituted;  
 (21) in Chapter 61, for the entry in column (4) occurring against all the tariff items, the entry "8%" shall be substituted;  
 (22) in Chapter 62, for the entry in column (4) occurring against all the tariff items, the entry "8%" shall be substituted;  
 (23) in Chapter 63, for the entry in column (4) occurring against all the tariff items (except tariff items 6309 00 00, 6310 10 10, 6310 10 20, 6310 10 30, 6310 10 40, 6310 10 90, 6310 90 20, 6310 90 30, 6310 90 40 and 6310 90 90), the entry "8%" shall be substituted;  
 (24) in Chapter 72, after Note 3, the following Note shall be inserted, namely:—  
 "4. In relation to the products of this Chapter, the process of drawing or redrawing a bar, rod, wire rod, round bar or any other similar article, into bright bar, shall amount to "manufacture";"  
 (25) in Chapter 73, in Note 5, for the figures and word "7304 and 7305", the figures and word "7304, 7305 and 7306" shall be substituted;  
 (26) in Chapter 85, in tariff items 8524 31 11, 8524 31 19, 8524 40 11, 8524 40 19, 8524 91 11, 8524 91 13 and 8524 91 19, for the entry in column (4) occurring against each of them, the entry "8%" shall be substituted;  
 (27) in Chapter 87,—  
 (i) in tariff items 8702 10 11, 8702 10 12, 8702 10 19, 8702 90 11, 8702 90 12, 8702 90 13 and 8702 90 19, for the entry in column (4) occurring against each of them, the entry "24%" shall be substituted;  
 (ii) for the entry in column (4) occurring against all the tariff items of heading 8703, the entry "24%" shall be substituted;  
 (iii) in tariff items 8704 10 90, 8704 31 10, 8704 31 19, 8704 32 19, 8704 32 90, 8704 90 11, 8704 90 12, 8704 90 19 and 8704 90 90, for the entry in column (4) occurring against each of them, the entry "24%" shall be substituted;  
 (iv) in tariff items 8706 00 21 and 8706 00 39, for the entry in column (4) occurring against each of them, the entry "24%" shall be substituted;  
 (v) in tariff items 8706 00 43 and 8706 00 49, for the entry in column (4) occurring against each of them, the entry "24% + Rs.10,000 per chassis" shall be substituted;

### THE EIGHTH SCHEDULE (See section 72)

In the First Schedule to the Additional Duties of Excise (Goods of Special Importance) Act,—  
 (1) sub-heading 5208 53, tariff items 5208 53 10, 5208 53 20 and 5208 53 90 and the entries relating thereto shall be omitted;  
 (2) sub-heading 5210 12, tariff items 5210 12 10 and 5210 12 90 and the entries relating thereto shall be omitted;  
 (3) sub-heading 5210 22, tariff items 5210 22 10 and 5210 22 90 and the entries relating thereto shall be omitted;  
 (4) sub-heading 5210 42, tariff items 5210 42 10 and 5210 42 90 and the entries relating thereto shall be omitted;  
 (5) sub-heading 5210 52, tariff items 5210 52 10 and 5210 52 90 and the entries relating thereto shall be omitted;

(6) in heading 5211, for tariff item 5211 19 00, sub-heading 5211 21, tariff items 5211 21 10 to 5211 21 90, sub-heading 5211 22, tariff items 5211 22 10 to 5211 22 90, sub-heading 5211 29, tariff items 5211 29 10 to 5211 29 90 and the entries relating thereto, the following sub-heading, tariff items and entries shall be substituted, namely:—

Tariff Item	Description of goods	Unit	Rate of duty
(1)	(2)	(3)	(4)
5211 19 00	Other fabrics	m <sup>2</sup>	8%
5211 20	Bleached	m <sup>2</sup>	8%
5211 20 10	Shirting fabrics	m <sup>2</sup>	8%
5211 20 20	Canvas (including duck) of carded or combed yarn	m <sup>2</sup>	8%
5211 20 30	Flannellette	m <sup>2</sup>	8%
5211 20 40	Saree	m <sup>2</sup>	8%
5211 20 50	Crepe fabrics including	m <sup>2</sup>	8%
5211 20 60	Twill fabrics	m <sup>2</sup>	8%
5211 20 91	Other	m <sup>2</sup>	8%
5211 20 92	Zari bordered sari	m <sup>2</sup>	8%
5211 20 99	Other	m <sup>2</sup>	8%
(7) tariff items 5513 22 00, 5513 32 00, 5513 33 00, 5513 42 00, 5513 43 00 and the entries relating thereto shall be omitted; (8) sub-heading 5514 13, tariff items 5514 13 10 and 5514 13 20 and the entries relating thereto shall be omitted; (9) for tariff items 5514 29 00 to 5514 39 00 and the entries relating thereto, the following tariff items and entries shall be substituted, namely:— 5514 29 00 Other woven fabrics	m <sup>2</sup>	8%	
5514 30	Of yarns of different colors:	m <sup>2</sup>	8%
5514 30 11	Of polyester staple fibres, plain weave	m <sup>2</sup>	8%
5514 30 12	3-thread or 4-thread twill, including cross twill, of polyester, staple fibres	m <sup>2</sup>	8%
5514 30 13	Other woven fabrics of polyester staple fibres	m <sup>2</sup>	8%
5514 30 19	Other woven fabrics	m <sup>2</sup>	8%
(10) sub-heading 5515 92, tariff items 5515 92 10 to 5515 92 90 and the entries relating thereto shall be omitted; (11) in heading 5803, tariff items 5803 10 10 to 5803 10 90, sub-heading 5803 90, tariff items 5803 90 10 to 5803 90 90 and the entries relating thereto, the following sub-heading, tariff items and entries shall be substituted, namely:— 5803 00 Gauze, other than narrow fabrics of heading 5806:	m <sup>2</sup>	8%	
5803 00 11	Of cotton	m <sup>2</sup>	8%
5803 00 12	Unbleached	m <sup>2</sup>	8%
5803 00 13	Bleached	m <sup>2</sup>	8%
5803 00 14	Piece dyed	m <sup>2</sup>	8%
5803 00 15	Yarn dyed	m <sup>2</sup>	8%
5803 00 19	Other	m <sup>2</sup>	8%
5803 00 91	Of other textile materials:	m <sup>2</sup>	8%
5803 00 92	Of silk or silk waste	m <sup>2</sup>	8%
5803 00 93	Of synthetic fibre	m <sup>2</sup>	8%
5803 00 99	Of artificial fibre	m <sup>2</sup>	8%

### THE NINTH SCHEDULE (See section 74)

In the Schedule to the Additional Duties of Excise (Textiles and Textile Articles) Act, for S. No. 4 and the entry relating thereto, the following S. No. and entry shall be substituted, namely:—

S.No.	Description of goods	Additional rate of duty
4.	Man-made filaments strip and the like of man-made textile materials, that is to say, all goods falling within Chapter 54.	

### THE TENTH SCHEDULE (See section 75)

In the Seventh Schedule to the Finance Act, 2001, for tariff items 5402 42 00 and 5402 43 00 and the entries relating thereto, the following tariff items and entries shall be substituted, namely:—

Tariff Item	Description of goods	Unit	Rate of duty
(1)	(2)	(3)	(4)
5402 46 00	Other, of polyesters partially oriented	kg.	1%
5402 47 00	Other, of polyesters	kg.	1%

### STATEMENT OF OBJECTS AND REASONS

The object of the Bill is to give effect to the financial proposals of the Central Government for the financial year 2006-2007. The notes on clauses explain the various provisions contained in the Bill.

P. CHIDAMBARAM,

NEW DELHI,  
The 28th February, 2006.

PRESIDENT'S RECOMMENDATION UNDER ARTICLES 117 AND 274 OF THE CONSTITUTION OF INDIA

[Copy of letter No. 2(11)-B(D)/2006, dated the 28th February, 2006 from Shri P. Chidambaram, Minister of Finance, to the Secretary-General, Lok Sabha.]

The President, having been informed of the subject matter of the proposed Bill, recommends under clauses (1) and (3) of article 117, read with clause (1) of article 274, of the Constitution of India, the introduction of the Finance Bill, 2006 to the Lok Sabha and also recommends to the Lok Sabha the consideration of the Bill.

2. The Bill will be introduced in the Lok Sabha immediately after representation of the Budget on the 28th February, 2006.



## FOR SOME, THIS BUDGET MAY BE TAXING, AND FOR SOME, IT MAY BE RELAXING

### AT NEW INDIA, WE HAVE POLICIES FOR ALL BUDGETS







# Finance Bill

The proposed new section 90A seeks to provide that any specified association in India may enter into an agreement with any specified association in a specified territory outside India and the Central Government may, by notification in the Official Gazette, make the necessary provisions for adopting and implementing such agreement for grant of double taxation relief, for avoidance of double taxation, for exchange of information for the prevention of evasion or avoidance of income-tax or for recovery of income-tax. It is further proposed to provide that in relation to any assessee to whom the agreement referred to in the said section applies, the provisions of the Income-tax Act shall apply to the extent they are more beneficial to that assessee. It is also proposed to provide that any person referred to in the Income-tax Act or in the said agreement shall have the same meaning as assigned to it in the notification issued by the Central Government, unless the context requires otherwise and it is not inconsistent with the provisions of the Income-tax Act or the said agreement. The expression "specified association" is defined to mean any notified institution, association or body, whether incorporated or not, functioning under any law for the time being in force in India or the laws of the specified territory outside India. The expression "specified territory" is defined to mean any area outside India notified by the Central Government for the purposes of the said section.

This amendment will take effect from 1st June, 2006.

**Clause 21** of the Bill seeks to amend section 92C of the Income-tax Act relating to computation of arm's length price.

The existing provisions contained in section 92C provides for computation of arm's length price. This section, *inter alia*, provides that the arm's length price in relation to an international transaction shall be determined by (a) comparable uncontrolled price method or (b) resale price method or (c) cost plus method, or (d) profit split method, or (e) transactional net margin method; or (f) any other method which may be prescribed by the Central Board of Direct Taxes. One of these methods shall be the most appropriate method which shall be applied for computation of arm's length price in the manner as may be specified by the rules to be made by the Central Board of Direct Taxes in this behalf. The Assessing Officer can determine the arm's length price in the case referred to in that section. The first proviso to clause (4) of the said section 92C provides that in relation to section 10A or section 10B or under Chapter VI-A shall be allowed in respect of the amount of income by which the total income of the assessee is enhanced after computation of income under this sub-section.

It is proposed to amend the said proviso so as to provide that no deduction under section 10AA relating to special provisions in respect of newly established units in Special Economic Zones shall be allowed under the first proviso to sub-section (4) of section 92C.

This amendment will take effect from 1st April, 2007 and will, accordingly, apply in relation to the assessment year 2007-2008 and subsequent years.

**Clause 22** of the Bill seeks to insert a new section 115BBC relating to anonymous donations to be taxed in certain cases. The proposed new section seeks to provide that on any income comprising of any anonymous donation received by any assessee on behalf of any university or other educational institution referred to in sub-clause (iii) or sub-clause (iv) or any trust or institution referred to in sub-clause (v) or clause (23C) of section 10 or any trust or institution referred to in section 11, included in the total income of such assessee, income-tax shall be payable at the rate of thirty per cent.

It is further proposed to provide that the provisions of said new section 115BBC shall not apply to any anonymous donation received by (a) any trust or institution created or established wholly for religious purposes and (b) any trust or institution created or established wholly for religious and charitable purposes, other than any anonymous donation made with a specific direction that such anonymous donation is for any university or other educational institution or any hospital or other medical institution run by the trust or institution.

It is also proposed to provide that the anonymous donation shall mean any voluntary contribution referred to in sub-clause (ii) of clause (24) of section 2, where a person receiving such contribution does not maintain a record of the identity of the person making such contribution indicating the name, address and such other particulars of the person as may be prescribed.

This amendment will take effect from 1st April, 2007, and will, accordingly, apply in relation to the assessment year 2007-2008 and subsequent years.

**Clause 23** of the Bill seeks to amend section 115JAA of the Income-tax Act relating to tax credit in respect of tax paid on deemed income relating to certain companies.

Under the existing provisions contained in sub-section (1) of the said section, where any amount of tax is paid under sub-section (1) of section 115JA of the Income-tax Act by a company for any assessment year, then credit in respect of the tax so paid shall be allowed in accordance with the provisions of the said section 115JAA. Sub-section (1A) of the said section provides that the amount of credit determined under any amount of tax paid under sub-section (1) of section 115JB, for the assessment year commencing on 1st April, 2006 and any subsequent year. Sub-section (2) of the said section 115JAA provides that the tax credit to be allowed under sub-section (1) shall be the difference of the tax paid for any assessment year under section 115JA or section 115JB, as the case may be, and the amount of tax payable by the assessee on his total income computed in accordance with the provisions of the Income-tax Act. The amount of credit determined under sub-section (2) shall be carried forward and set off in accordance with the provisions of the said section, but such carry forward shall not be allowed beyond the fifth assessment year immediately succeeding the assessment year in which the tax credit becomes allowable under sub-section (1).

The proposed amendment provides that the amount of tax credit determined, in relation to certain companies to which the provisions of section 115JB apply, shall be carried forward and set off in accordance with the provisions of section 115JB, but such carry forward shall not be allowed beyond the seventh assessment year, instead of fifth assessment year, immediately succeeding the assessment year in which tax credit becomes allowable under the said section 115JAA.

This amendment will take effect from 1st April, 2007 and will, accordingly, apply in relation to the assessment year 2007-2008 and subsequent years.

**Clause 24** of the Bill seeks to amend section 115B of the Income-tax Act relating to special provision for payment of tax by certain companies.

Under the existing provisions contained in the said section 115B, in case of a company, if the tax payable on the total income as computed under the Income-tax Act in respect of any previous year relevant to the assessment year commencing on or after 1st April, 2001, is less than seven and one-half per cent. of its book profit, such book profit shall be deemed to be the total income of the assessee and the tax payable for the relevant previous year shall be seven and one-half per cent. of such book profit. The expression "book profit" means the net profit as shown in the profit and loss account prepared in accordance with the provisions of Parts II and III of Schedule VI to the Companies Act, 1956 as increased or reduced by certain adjustments, as specified in that section. The aforesaid section, *inter alia*, provides that the book profit shall be increased by the amount or amounts of expenditure relating to any income referred to in section 10 (other than the provisions contained in clause (23G) thereof) the amount of credit determined under sub-section (2) of section 115B and it shall be reduced by the amount of income referred to in that section, if any such amount is credited to the profit and loss account.

It is proposed to amend sub-section (1) of the said section 115B to provide that if the income-tax payable on the total income as computed under the Income-tax Act in respect of any previous year relevant to the assessment year commencing on or after 1st April, 2007 is less than ten per cent. of its book profit, such book profit shall be deemed to be the total income of the assessee and the tax payable for the relevant previous year shall be ten per cent. of such book profit.

It is further proposed to amend clause (f) of the Explanation occurring after sub-section (2) of section 115B to provide that the book profit shall be increased by the amount or amounts of expenditure relating to any income to which section 10 (excluding the income referred to in clause (38) thereof) applies.

It is also proposed to amend clause (ii) of the said Explanation so as to provide that the amount of income to which any of the provisions of section 10 (excluding the income referred to in clause (38) thereof) apply, shall be reduced from the book profit for the purposes of calculation of income tax payable under the aforesaid section.

It is, *inter alia*, also proposed to insert a new clause (g) in the said Explanation so as to provide that the book profit shall be increased by the amount of depreciation debited to the profit and loss account. It is also proposed to insert a new clause (ia) in the Explanation occurring after sub-section (2) of section 115B so as to provide that the amount of depreciation claimed in the profit and loss account, excluding the claim of depreciation on account of revaluation of assets, shall be reduced from the book profit for the purposes of calculation of income-tax payable under the aforesaid section.

It is also proposed to amend clause (b) of the said Explanation to provide that the amount of credit determined under sub-section (2) of section 115B shall be reduced from the book profit for the purposes of calculation of income-tax payable under the aforesaid section.

This amendment will take effect from 1st April, 2007 and will, accordingly, apply in relation to the assessment year 2007-2008 and subsequent years.

**Clause 25** of the Bill seeks to amend section 115-O of the Income-tax Act relating to tax on distributed profits of domestic companies so as to omit the reference to clause (23G) of section 10.

The proposed amendment is consequential to the omission of clause (23G) of section 10 of the Income-tax Act *vide* clause 4 of the Bill.

This amendment will take effect from 1st April, 2007 and will, accordingly, apply in relation to the assessment year 2007-2008 and subsequent years.

**Clause 26** of the Bill seeks to amend section 115R of the Income-tax Act relating to tax on distributed income to unit holders.

Under the existing provisions contained in sub-section (2) of the said section, any income distributed, *inter alia*, by a Mutual Fund to its unit holders shall be chargeable to tax and such Mutual Fund shall be liable to pay additional income-tax on such distributed income. However, an open-ended equity oriented fund is not liable to pay such additional income-tax.

It is proposed to omit the word "open-ended" from clause (b) of the proviso to sub-section (2) of the said section so as to provide that all equity oriented funds shall not be liable to pay additional income-tax instead of only open-ended equity oriented funds.

This amendment will take effect from 1st June, 2006.

**Clause 27** of the Bill seeks to amend section 115T of the Income-tax Act relating to Unit Trust of India or Mutual Fund to be an assessee in default.

Under the existing provisions contained in section 115T of the Income-tax Act so as to provide that all equity oriented mutual funds shall not be liable to pay additional income-tax instead of only open-ended equity oriented mutual funds defined in the Explanation to section 115T.

It is proposed to omit the reference of "open-ended" from clause (b) of section 115T of the Income-tax Act. The proposed amendment is of a consequential nature.

Under the existing provisions contained in sub-section (2) of section 115R of the Income-tax Act, any income distributed, *inter alia*, by a Mutual Fund to its unit holders shall be chargeable to tax and such Mutual Fund shall be liable to pay additional income-tax on such distributed income. However, an open-ended equity oriented fund is not liable to pay such additional income-tax. The expression "open-ended equity oriented fund" has been defined in clause (b) of the Explanation to section 115R of the Income-tax Act to mean a fund in which the investments are invested by way of equity shares in domestic companies to the extent of more than fifty per cent. of the total proceeds of such fund. It is proposed to amend the said Explanation so as to increase the investible funds from fifty per cent. to sixty-five per cent. of the total proceeds of such fund.

This amendment will take effect from 1st June, 2006.

**Clause 28** of the Bill seeks to amend section 115WB of the Income-tax Act relating to fringe benefits.

Under the existing provisions contained in section 115WB the expression "fringe benefits" has been defined which, *inter alia*, means any privilege, service, facility or amenity, directly or indirectly, provided by an employer to his employees, any contribution by the employer to an approved superannuation fund for the employees, etc. Sub-section (2) of the said section provides that the fringe benefits shall be deemed to have been provided by the employer to his employees, if the employer has, in the course of his business or profession, incurred any expense on or made any payment for the purposes of entertainment, hospitalisation, conference, sales promotion (including publicity), etc.

The proviso to clause (D) of sub-section (2) of section 115WB excludes certain expenditure on advertisement from sales promotion including publicity.

It is proposed to insert two new clauses in the said proviso so as to provide that the expenditure on distribution of free samples of medicines or of medicinal equipment, to doctors and the expenditure by way of payment to any person of repute for promoting the sale of goods or services of the business of the employer, shall not be included in sales promotion including publicity for the purposes of valuation of fringe benefits.

It is also proposed to amend clause (F) of sub-section (2) of the said section 115WB so as to omit reference to tour and travel (including foreign travel) from the said clause.

It is also proposed to insert a new clause (Q) in the said sub-section (2) of section 115WB so as to include expenses on tour and travel (including foreign travel) within the meaning of deemed fringe benefits.

Under the existing provisions contained in sub-section (3) of the said section 115WB it is provided that for the purposes of sub-section (1) of the said section, the privilege, service, facility or amenity does not include perquisites in respect of which tax is paid or payable by the employees.

It is proposed to amend sub-section (3) of section 115WB so as to provide that any benefit or amenity in the nature of free or subsidised transport or any such allowance provided by the employer to his employees for journeys by the employees from their residence to the place of work or such place of work to the place of residence shall not form part of fringe benefits.

This amendment will take effect from 1st April, 2007 and will, accordingly, apply in relation to the assessment year 2007-2008 and subsequent years.

**Clause 29** of the Bill seeks to amend section 115WC of the Income-tax Act, 1961 relating to value of fringe benefits.

Under the existing provisions contained in section 115WC, the value of fringe benefits is to be determined in terms of percentage of certain expenses specified in section 115WB, which shall be taken as fringe benefits for the purpose of section 115WC.

Under the existing provisions contained in clause (b) of sub-section (1) of section 115WC, it is specified that the actual amount of contribution by the employer to an approved superannuation fund for employees shall be the value of fringe benefit.

It is proposed to amend the said clause (b) so as to provide that only so much of the amount of the contribution by the employer to an approved superannuation fund, which exceeds one lakh rupees in respect of each of his employees, would be taken into account for the purposes of calculating aggregate value of fringe benefits.

It is further proposed to insert a new clause (e) in sub-section (1) of the said section 115WC so as to provide that the value of fringe benefits shall be five per cent. of the expenses referred to in clause (Q) of sub-section (2) of section 115WB.

Under the existing provisions contained in sub-section (2) of the said section 115WC lower rate for valuation of fringe benefits in the case of certain employers with regard to certain expenses referred to in sub-section (2) of section 115WB is provided.

It is also proposed to insert new clauses (aa), (ab), (da) and (db) in sub-section (2) of section 115WC, so as to provide that in the case of an employer engaged in the business of carriage of passengers or goods by aircraft or ship, the value of fringe benefits for the purposes referred to in clauses (B) and (G) of sub-section (2) of section 115WB shall be "five per cent." instead of "twenty per cent." referred to in clause (c) of sub-section (1) of the said section 115WC.

This amendment will take effect from 1st April, 2007 and will, accordingly, apply in relation to the assessment year 2007-2008 and subsequent years.

**Clause 30** of the Bill seeks to amend section 120 of the Income-tax Act relating to jurisdiction of income-tax authorities.

Under the existing provisions contained in sub-section (1) of the said section, the income-tax authorities shall exercise all or any of the powers and perform all or any of the functions conferred on or assigned to, such authorities in accordance with such directions as the Board may issue for the exercise of such powers and functions by all or any of those authorities.

It is proposed to insert an Explanation to sub-section (1) of the said section so as to clarify that any income-tax authority, being an authority higher in rank, may, if so directed by the Board under that section, exercise the powers and perform the functions of the income-tax authority lower in rank and any such direction issued shall be deemed to be a direction issued by the Board under the said sub-section (1).

This amendment will take effect retrospectively from 1st April, 1988.

**Clause 31** of the Bill seeks to amend section 139 of the Income-tax Act relating to return of income.

It is proposed that no return shall be required to be furnished under the first proviso to sub-section (1) of said section for the assessment year 2006-2007 and subsequent assessment years.

This amendment will take effect from the assessment year 2006-2007.

The existing provisions of sub-section (9) of the said section, *inter alia*, provide that a return of income shall be regarded as defective unless the conditions specified in clauses (a) to (f) of the Explanation to the said sub-section are fulfilled.

Under the existing provisions contained in sub-clause (i) of clause (c) of Explanation to sub-section (9) of the said section, where the return of income is not accompanied by the proof of tax, if any, claimed to have been deducted at source, the return of income is regarded defective. The return of income is not regarded defective if the certificate under section 203 is not furnished by the deductor to the deductee and such certificate is produced within a period of two years specified under sub-section (14) of section 155.

It is proposed to amend said clause (c) so as to include collection of tax at source and provide that the return of income if not accompanied by proof of tax, if any, claimed to have been collected at source shall be regarded as defective. It is further proposed to provide that return of income shall not be regarded defective if the certificate under section 206C is not furnished by the collector to the collectee and such certificate is produced within a period of two years specified under sub-section (14) of section 155.

This amendment will take effect from 1st April, 2007 and will, accordingly, apply in relation to the assessment year 2007-08 and subsequent years.

Under the existing provisions of the said section a return is regarded defective if not accompanied by proof in respect of tax deducted at source before the 1st day of April, 2006. In respect of tax deducted on or after 1st day of April, 2006, the return is not required to be accompanied by proof of tax. It is proposed to extend the said date to 1st April, 2008. The extended date shall also apply in respect of non-furnishing of proof of tax collected at source after 1st April, 2005.

This amendment will take effect retrospectively from 1st April, 2006 and will, accordingly, apply in relation to the assessment year 2006-07 and subsequent years.

It is further proposed to insert a proviso in the Explanation to the said sub-section (9) so as to confer power upon the Central Board of Direct Taxes to dispense by rules, any of the conditions specified in clauses (a) to (f) in respect of a class or classes of persons. It also proposes to empower the Board to include any of the conditions specified in clauses (a) to (f) of this Explanation, in the form of return.

This amendment will take effect from 1st June, 2006.

**Clause 32** of the Bill seeks to amend section 139A of the Income-tax Act relating to permanent account number.

It is proposed to insert a new sub-section (1B) so as to provide that for the purpose of collecting any information which may be useful for or relevant to the purposes of this Act, the Central Government may by notification specify any class or classes of persons, and such persons shall within the prescribed time apply to the Assessing Officer for allotment of a permanent account number.

Under the existing provisions contained in sub-section (2) of the said section, the Assessing Officer may also allot to any other person by whom tax is payable, a permanent account number.

It is proposed to amend the said sub-section so as to provide that the Assessing Officer may, having regard to the nature of transactions as may be specified by the rules made by the Central Board of Direct Taxes, also allot a permanent account number to any other person (whether any tax is payable by him or not), in accordance with the procedure as may be specified by such rules.

This amendment will take effect from 1st June, 2006.

Under the existing provisions contained in clause (iii) of sub-section (5B) of the said section, every person deducting tax under Chapter XVII-B is required to quote the permanent account number of the deductee in all annual returns prepared and delivered or caused to be delivered under section 206 to an income-tax authority. Similarly, under clause (ii) of sub-section (5D) of the said section every person collecting tax under Chapter XVII-BB is required to quote the permanent account number, every person in respect of whose income tax is collected in all annual returns prepared and delivered or caused to be delivered under sub-section (5A) or sub-section (5B) of section 206C to an income-tax authority.

It is proposed to insert clause (iv) in sub-section (5B) and clause (iii) in sub-section (5D) of section 139A, so as to provide that every person deducting tax or collecting tax shall quote the permanent account number of the deductee or person in respect of whose income, tax is collected in all quarterly statements furnished in accordance with the provisions of sub-section (3) of section 200 or, as the case may be, sub-section (3) of section 206C which provide for furnishing of quarterly statement.

This amendment is consequential in nature.

The amendments will take effect from 1st June, 2006.

The provisions contained under sub-section (5C) of the said section impose an obligation upon every buyer or licensee or lessee to intimate his permanent account number to the seller.

The provisions contained under sub-section (5D) of the said section impose an obligation upon every seller collecting the tax to quote the permanent account number of the buyer or licensee or lessee.

It is proposed to extend the scope of sub-sections (5C) and (5D) so as to substitute the reference to "seller" by the words "person responsible for collecting tax" in sub-section (5C) and by the word "person" in sub-section (5D).

The amendments will take effect from 1st April, 2007 and will, accordingly, apply in relation to the assessment year 2007-2008 and subsequent years.

**Clause 33** of the Bill seeks to insert new section 139B in the Income-tax Act relating to scheme for submission of returns through Tax Return Preparers.

The proposed new section, *inter alia*, provides that for the purpose of enabling any specified class or classes of persons in preparing and furnishing returns of income, the Board may, without prejudice to the provisions of section 139, frame a Scheme, by notification in the Official Gazette, providing that such persons may furnish their returns of income through a Tax Return Preparer authorised to act as such under the Scheme.

It is further provided that every Tax Return Preparer shall assist the persons furnishing the return of income in such manner as may be specified in the Scheme framed under this section and affix his signature on such return.

It is also provided that a Tax Return Preparer shall be an individual (not being a person referred to in clause (ii) or clause (iv) of sub-section (2) of section 288 or an employee of the specified class or classes of persons) who has been authorized to act as a Tax Return Preparer under the Scheme framed under this section.

It is also proposed to confer powers upon the Central Board of Direct Taxes to frame the Scheme providing (i) the manner in which the Tax Return Preparers shall be authorised under the Scheme; (ii) the educational and other qualifications to be possessed, and the training and other conditions required to be fulfilled, by a person to act as a Tax Return Preparer; (iii) the code of conduct of the Tax Return Preparers; (iv) the duties and obligations of the Tax Return Preparer; (v) the manner in which the authorization may be withdrawn; (vi) any other matter which is required to be or may be specified. Every such Scheme shall be laid, as soon as may be after it is framed, before each House of Parliament.

This amendment will take effect from 1st June, 2006.

**Clause 34** of the Bill seeks to amend section 140A of the Income-tax Act relating to self-assessment.

Under the existing provisions of the said section, the assessee is liable to pay tax (after taking into account the amount of tax, if any already paid under any provision of the Act) together with interest payable under any provision of the Act before furnishing the return of income. The said section provides that the interest under section 234A shall be computed on the amount of the tax on the total income as declared in the return as reduced by the advance tax paid and tax deducted or collected at source. It is further provided that the interest under section 234B shall be computed on the amount of the tax as assessed by the assessee, but the amount by which advance tax paid falls short of the assessed tax. Assessed tax is defined as the tax on total income as declared in the return of income as reduced by the amount of tax deducted or collected at source.

It is proposed to allow relief of tax under section 90 or section 90A, deduction of tax from the Indian income-tax payable under section 91 and credit available to be set off in accordance with the provisions of section 115AAA for the purposes of computation of interest under sections 234A, 234B and 234C and to amend the said clause (i) so as to provide that where a person has not made a return of income before the end of the assessment year, the interest under section 91 and credit available to be set off in accordance with the provisions of section 115AAA will also be taken into account under section 140A for the purposes of computing tax payable, and interest chargeable under sections 234A and 234B, before furnishing the return of income.

These amendments will take effect from 1st April, 2007 and will, accordingly, apply in relation to assessment year 2007-08 and subsequent years.

**Clause 35** of the Bill seeks to amend section 142 of the Income-tax Act relating to inquiry before assessment.

The existing provisions contained in clause (i) of sub-section (1) of the said section provide that where a person has not made a return of income within the time allowed under sub-section (1) of section 139, the Assessing Officer may serve a notice on him, requiring him to furnish the return of income. It is proposed to amend the said clause (i) so as to provide that where a person has not made a return of income before the end of the relevant assessment year, the Assessing Officer may serve a notice under this sub-section on him after the end of the relevant assessment year, requiring him to furnish return of income.

This amendment will take effect from 1st April, 2006.

It is further proposed to provide that the notice referred to in said sub-section for the purposes of said clause served after the end of the relevant assessment year commencing on or after 1st April, 1990 shall be deemed to be a notice served in accordance with the provisions of the aforesaid sub-section.

This amendment will take effect retrospectively from 1st April, 1990.

**Clause 36** of the Bill seeks to amend section 143 of the Income-tax Act relating to issue of notice where income has escaped assessment.

Under the existing provisions of sub-section (1) of the said section, the Assessing Officer is required to issue a notice to the assessee requiring him to furnish the return of his income and the provisions of the Act shall, so far as may be, apply as if the return furnished in response to the notice under the said section were a return required to be furnished under section 139.

It is proposed to amend the said section (1) so as to provide that where a return has been furnished during the period from 1st October, 1991 to 30th September, 2005 in response to a notice served under this section and subsequently a notice has been served under sub-section (2) of section 143 after the expiry of twelve months specified in the proviso to sub-section (2) of section 143 as it stood immediately before the amendment of said sub-section by the Finance Act, 2002, but before the expiry of the time limit for making the assessment, reassessment or re-computation as specified in sub-section (2) of section 153, such notice shall be deemed to be a valid notice.

It is also proposed to insert a clause (ii) in the said section 143 so as to provide that where a return has been furnished during the period from 1st October, 1991 to 30th September, 2005 in response to a notice served under this section and subsequently a notice has been served under clause (ii) of sub-section (2) of section 143 after the expiry of twelve months specified in the proviso to clause (ii) of sub-section (2) of section 143, but before the expiry of the time limit for making the assessment, reassessment or re-computation as specified in sub-section (2) of section 153, such notice shall be deemed to be a valid notice.

These amendments will take effect retrospectively from 1st October, 1991.

It is also proposed to insert an Explanation in sub-section (1) so as to clarify that nothing contained in the first proviso or the second proviso shall apply to any return which has been furnished on or after 1st October, 2005 in response to a notice served under the said section.

This amendment will take effect retrospectively from 1st October, 2005.

**Clause 37** of the Bill seeks to amend section 153 of the Income-tax Act relating to the time limit for completion of assessments and reassessments.

It is proposed to revise the time limits specified in the said section for completion of assessments and re-assessments. The revised time limits shall be the time limits specified under the aforesaid section, as reduced by three months.

These amendments will take effect from 1st June, 2006.

**Clause 38** of the Bill seeks to amend section 153B of the Income-tax Act relating to the time limit for completion of assessment under section 153A.

It is proposed to revise the time limits specified in the said section for completion of assessment or reassessment in case of search or requisition. The revised time limits shall be the time limits specified under the aforesaid section, as reduced by three months.

These amendments will take effect from 1st June, 2006.

**Clause 39** of the Bill seeks to amend section 155 of the Income-tax Act relating to other amendments.

Under the existing provisions contained in sub-section (14) of the said section, the Assessing Officer is required to amend the order of assessment or any intimation or deemed intimation under sub-section (1) of section 143 in accordance with the provisions of section 154 where credit for tax deducted in accordance with the provisions of section 199 has not been given on the ground that the certificate furnished to the assessee under section 203 was not filed with the return and the certificate is produced before the Assessing Officer within two years from the end of the assessment year in which the income on which tax was deducted was assessable.

The proposed amendment seeks to enable the Assessing Officer to amend the order of assessment or any intimation or deemed intimation under sub-section (1) of section 143 under the aforesaid conditions where credit for tax collected is not given on the ground that the certificate furnished under section 206C was not filed with the return and the certificate is produced before the Assessing Officer within two years from the end of the assessment year in which the income on which tax was deducted and credit is given to him in the assessment in the assessment year in which such income is assessable without the production of certificate.

It is proposed to extend the said date upto 1st April, 2008 so as to provide that the credit for the amount of tax deducted and paid to the Central Government shall be allowed without the production of a certificate of deduction of tax in respect of tax deducted and paid to the Central Government so far as that date credit for the amount of tax deducted shall be allowed on the basis of the amount of the tax deducted and specified in the statement referred to in section 203AA.

This amendment will take effect retrospectively from 1st April, 2006 and will, accordingly, apply in relation to the assessment year 2006-07 and subsequent years.

**Clause 40** of the Bill seeks to amend section 194A of the Income-tax Act relating to interest other than "interest on securities".

Under the existing provisions of Explanation 2 to sub-section (3), the "infrastructure capital company" and "infrastructure capital fund" shall have the meanings respectively assigned to them in clauses (a) and (b) of Explanation 1 to clause (23G) of section 10 which is proposed to be omitted *vide* clause 4 of the Bill.

It is proposed to omit said Explanation 2 to sub-section (3) of the said section.

This amendment will take effect retrospectively from 1st April, 2006.

**Clause 41** of the Bill seeks to amend section 199 of the Income-tax Act relating to credit for tax deducted.

Under the existing provisions contained in sub-section (3) of the said section, the amount of tax deducted on or after 1st April, 2006, and paid to the credit of the Central Government and specified in the statement referred to in section 203AA of the Income-tax Act shall be



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It is proposed to insert a new sub-section (6A) so as to deem any person responsible for collecting tax in accordance with the provisions of the said section as assessee in default if such person does not collect the full or any part of the tax or fails to pay such tax after having collected the tax.

It is further proposed to provide that no penalty shall be charged under section 221 from such person unless the Assessing Officer is satisfied that the person has without good and sufficient reasons failed to collect or pay the tax.

Under the existing provisions contained in sub-section (7) of the said section, the assessee is held liable to pay simple interest at the rate of one per cent per month under the said section.

It is proposed to substitute the word "seller" in sub-section (7) by the words "person responsible for collecting tax" to include all persons responsible for collection of tax within the scope of said sub-section.

It is further proposed to amend sub-section (8) so as to substitute the word "seller" by "any person responsible for collecting tax". The proposed amendment is consequential in nature.

These amendments will take effect from 1st April, 2007 and will, accordingly, apply in relation to the assessment year 2007-2008 and subsequent years.

It is also proposed to amend sub-section (7) of the said section so as to provide that the person responsible for collection of tax and liable to pay interest under the said section (7) shall pay the said interest before furnishing the quarterly statement for each quarter in accordance with the provisions of sub-section (3) of that section.

This amendment will take effect from 1st June, 2006.

Clause 48 of the Bill seeks to amend section 234A of the Income-tax Act relating to interest for defaults in furnishing return of income.

Under the existing provisions contained in sub-section (1) of the said section, the assessee is held liable to pay simple interest at the rate of one per cent for every month or part of a month on the amount of the tax on the total income as reduced by the advance tax, if any, paid and tax deducted or collected at source.

It is proposed to provide for (a) reduction of tax credit allowed to be set off under section 115JAA from the tax on the total income and (b) reduction of the amount of relief of tax allowed under sections 90 and 90A and deduction, from the Indian income-tax payable, allowed under section 91, from the tax on the total income.

It is further proposed to provide that interest is to be charged on the amount of the tax on the total income as determined under sub-section (1) of section 143, and where a regular assessment is made, on the total income determined under the regular assessment.

These amendments will take effect from 1st April, 2007 and will, accordingly, apply in relation to the assessment year 2007-2008 and subsequent years.

Clause 49 of the Bill seeks to amend section 234B of the Income-tax Act relating to interest for defaults in payment of advance tax.

Under the existing provisions contained in sub-section (1) of the said section, the assessee is held liable to pay simple interest at the rate of one per cent for every month or part of a month on the amount of advance tax which falls short of assessed tax. Explanation 1 to the said sub-section defines the "assessed tax" which means the tax on the total income as reduced by the amount of tax deducted or collected at source.

It is proposed to provide for (a) reduction of tax credit allowed to be set off under section 115JAA, (b) reduction of the amount of relief of tax allowed under sections 90 and 90A and (c) deduction, from the Indian income-tax payable, allowed under section 91, from the assessed tax.

It is further proposed to provide that interest is to be charged on the amount of the tax on the total income as determined under sub-section (1) of section 143, and where a regular assessment is made, on the total income determined under the regular assessment.

These amendments will take effect from 1st April, 2007 and will, accordingly, apply in relation to the assessment year 2007-2008 and subsequent years.

Clause 50 of the Bill seeks to amend section 234C of the Income-tax Act relating to interest for default of advance tax.

Under the existing provisions contained in sub-section (1) of the said section, the assessee is held liable to pay simple interest at the rate of one per cent per month on the amount of shortfall from the specified percentages of the tax due on the returned income. The tax due on the returned income is defined as the tax chargeable on the total income declared in the return of income as reduced by the amount of tax deducted or collected at source.

It is proposed to provide for (a) reduction of tax credit allowed to be set off under section 115JAA from the tax due on the returned income and (b) reduction of the amount of relief of tax allowed under sections 90 and 90A and deduction, from the Indian income-tax payable, allowed under section 91, from the tax due on the returned income.

These amendments will take effect from 1st April, 2007 and will, accordingly, apply in relation to the assessment year 2007-2008 and subsequent years.

Clause 51 of the Bill seeks to amend section 246A of the Income-tax Act which provides for appeal before Commissioner of Income-tax (Appeals) against certain orders passed by an Income-tax authority specified under various clauses of that section.

Under the existing provisions contained in section 246A, an assessee aggrieved by any of the orders specified in that section may appeal to the Commissioner of Income-tax. The amendment is consequential to the insertion of section 271CA vide clause 52 of this Bill.

This amendment will take effect from 1st April, 2007 and will, accordingly, apply in relation to the assessment year 2007-2008 and subsequent years.

Clause 52 of the Bill seeks to insert a new section 271CA in the Income-tax Act relating to penalty for failure to collect tax at source.

The proposed new section 271CA provides for imposition of penalty on any person who fails to collect tax at source in contravention of the provisions of Chapter XVII-BB of the Act. Such penalty shall be a sum equal to the amount of tax which he failed to collect at source.

This amendment will take effect from 1st April, 2007 and will, accordingly, apply in relation to the assessment year 2007-2008 and subsequent years.

Clause 53 of the Bill seeks to amend section 272A of the Income-tax Act relating to penalty for failure to answer questions, sign statements, furnish information, returns or statements, allow inspections, etc.

Under the existing provisions contained in the said section, failure to return in due time under section 206 or section 206C renders the person, who fails to furnish the return, liable for penalty of a sum of ten hundred rupees for every day during which the failure continues. The said section further provides for (a) reduction of tax credit allowed to be set off under sections 206 and 206C shall not exceed the amount of tax deductible or collectible, as the case may be.

It is proposed to amend the said section so as to provide that the amount of penalty for failure to file statements under sub-section (3) of section 200 and under the proviso to sub-section (3) of section 206C shall not exceed the amount of tax deductible or collectible, as the case may be. This amendment is consequential in nature.

These amendments will take effect from 1st June, 2006.

Clause 54 of the Bill seeks to amend section 272BB of the Income-tax Act relating to penalty for failure to comply with the provisions of section 203A.

It is proposed to insert a new sub-section (1A) in the said section so as to provide that, if a person who is required to quote his "tax deduction account number" or "tax collection account number" or "tax deduction and collection account number" in the challans, certificates, statements or other documents referred to in sub-section (2) of section 203A, quotes a number which is false and which he either knows or believes to be false or does not believe to be true, such person shall pay by way of penalty a sum of ten thousand rupees.

Under the existing provisions contained in sub-section (2), no penalty shall be imposed unless the person concerned has been given a reasonable opportunity of being heard.

It is proposed to amend sub-section (2) so as to include a reference to sub-section (1A) therein for the purpose of giving an opportunity of being heard to the person on whom the penalty is proposed to be imposed under the said sub-section (1A).

These amendments will take effect from 1st June, 2006.

Clause 55 of the Bill seeks to amend section 273B of the Income-tax Act relating to penalty not to be imposed in certain cases.

Under the existing provisions of the said section, no penalty can be imposed on a person or assessee for any failure referred to in that section if the person or assessee proves that there was reasonable cause for such failure.

It is proposed to amend the said section so as to include a reference to section 271CA also for the said purpose.

The proposed amendment is consequential in nature.

This amendment will take effect from 1st April, 2007 and will, accordingly, apply in relation to the assessment year 2007-2008 and subsequent years.

It is also proposed to amend the said section to include a reference to sub-section (1A) of section 272BB so as to provide that no penalty shall be imposed if there is a reasonable cause for any failure. This amendment is consequential in nature.

This amendment will take effect from 1st June, 2006.

Clause 56 of the Bill seeks to amend the Fourth Schedule to the Income-tax Act relating to recognised provident funds.

Under the existing provisions contained in rule 3 of Part A of the Fourth Schedule, the Chief Commissioner or the Commissioner may accord recognition to any provident fund which, in his opinion satisfies the conditions prescribed in rule 4 and the rules made by the Board in this behalf, and may, at any time, withdraw such recognition if the provident fund contravenes any of the conditions specified in rule 4 and the rules made by the Board.

It is proposed to insert a proviso in sub-rule (1) of the said rule 3 so as to provide that in a case where recognition has been accorded to any provident fund on or before 31st March, 2006 and such provident fund does not satisfy the conditions set out in clause (ea) of rule 4, and any other conditions which the Board may, by rules specify in this behalf, the recognition to such fund shall be withdrawn, if such fund does not satisfy such conditions on or before 31st March, 2007.

Under the existing provisions contained in rule 4 of Part A of the Fourth Schedule, relating to conditions to be satisfied by recognised provident funds, a provident fund may receive and retain recognition if it satisfies certain conditions specified in the said rule.

It is proposed to insert a new clause (ea) in the said rule so as to provide for one more condition that the fund of an establishment shall be such that the provisions of sub-section (3) or sub-section (4) of section 17 of the Employees' Provident Funds and Miscellaneous Provisions Act, 1952 are applicable and such establishment has been exempted under section 17 of the said Act from the operation of all or any of the provisions of any Scheme referred to in that section.

This amendment will take effect from 1st April, 2007 and will, accordingly, apply in relation to the assessment year 2007-2008 and subsequent years.

Clause 57 of the Bill seeks to amend section 17A of the Wealth-tax Act, 1957 relating to time limit for completion of assessment and reassessment.

It is proposed to revise the time limits specified in the said section for completion of assessment and re-assessment. The revised time limits shall be the time limit specified under the aforesaid section, as reduced by three months.

These amendments will take effect from 1st June, 2006.

Clause 58 seeks to amend section 23 of the Customs Act so as to provide that the owner of imported goods shall not be allowed to relinquish his title to such goods in respect of which an offence appears to have been committed.

Clause 59 seeks to amend section 68 of the Customs Act so as to provide that the owner of warehoused goods shall not be allowed to relinquish his title to such goods in respect of which an offence appears to have been committed.

Clause 60 seeks to amend— (a) notification number G.S.R. 423 (E), dated the 20th April, 1992, with retrospective effect, so as to provide that the export obligation shall be relaxed based on the actual CIF value assessed by an officer of Customs instead of the notional value of corresponding new capital goods; (b) notification number G.S.R. 19 (E), dated the 17th September, 2004, with retrospective effect so as to allow benefit of Duty Entitlement Pass Book Scheme to goods imported during the period from the 1st day of October, 2005 to the 3rd day of October, 2005 (both days inclusive).

Clause 61 seeks to amend section 9 of the Customs Tariff Act so as to— (a) substitute the words "territory of the exporting or producing country" in the Explanation to sub-section (1) by the words "exporting or producing country or territory" to cover the cases where subsidy is bestowed by a country or by a Customs Union of more than one country or a customs territory; (b) provide that provisions of Customs Act and the rules and regulations made thereunder, relating to the date for determination of rate of duty, non levy, short levy, refunds, interest, appeals, offences and penalties, shall apply to the duty charged under this section.

Clause 62 seeks to amend section 9A of the Customs Tariff Act so as to substitute the words "meant for consumption" by the words "destined for consumption".

Clause 63 seeks to amend the First Schedule to the Customs Tariff Act so as to— (a) increase customs duty in respect of goods falling under tariff item 0409 00 00; (b) reduce ad valorem rate of customs duty of the ad valorem component of customs duty, as the case may be, in respect of goods falling under the following Chapters, headings, sub-headings or tariff items, namely:—

Chapter 25 (except 2510), 26 (2620 11 00, 2620 19 00, 2620 30 10 and 2620 30 90), 27 (except 2701 12 00, 2711, 2714, 2716 00 00, 28 (except 2814), 29 (except 2902 43 00, 2905 43 00, 2905 44 00), 30 (except 3006 60 10, 3006 60 20, and 3006 60 30), 31 (except 3102 21 00, 3102 50 00, 3104 30 00, 3105 20 00, 3105 30 00, 3105 40 00, 3105 50 00, 3105 59 00, 3105 60 00, 3105 90 10 and 3105 90 30), 32, 33 (except 3301, 3302 10), 34, 35 (3506 and 3507), 36, 37, 38, (except 3809 10 00, 3818 00 10, 3818 00 90, 3823 11, 3823 12 00, 3823 13 00, 3823 19 00, 3823 20 00, 3823 21 00, 3823 22 00, 3823 23 00, 3823 24 00, 3823 25 00, 3823 26 00, 3823 27 00, 3823 28 00, 3823 29 00, 3823 30 00, 3823 31 00, 3823 32 00, 3823 33 00, 3823 34 00, 3823 35 00, 3823 36 00, 3823 37 00, 3823 38 00, 3823 39 00, 3823 40 00, 3823 41 00, 3823 42 00, 3823 43 00, 3823 44 00, 3823 45 00, 3823 46 00, 3823 47 00, 3823 48 00, 3823 49 00, 3823 50 00, 3823 51 00, 3823 52 00, 3823 53 00, 3823 54 00, 3823 55 00, 3823 56 00, 3823 57 00, 3823 58 00, 3823 59 00, 3823 60 00, 3823 61 00, 3823 62 00, 3823 63 00, 3823 64 00, 3823 65 00, 3823 66 00, 3823 67 00, 3823 68 00, 3823 69 00, 3823 70 00, 3823 71 00, 3823 72 00, 3823 73 00, 3823 74 00, 3823 75 00, 3823 76 00, 3823 77 00, 3823 78 00, 3823 79 00, 3823 80 00, 3823 81 00, 3823 82 00, 3823 83 00, 3823 84 00, 3823 85 00, 3823 86 00, 3823 87 00, 3823 88 00, 3823 89 00, 3823 90 00, 3823 91 00, 3823 92 00, 3823 93 00, 3823 94 00, 3823 95 00, 3823 96 00, 3823 97 00, 3823 98 00, 3823 99 00, 3823 00 00, 3823 01 00, 3823 02 00, 3823 03 00, 3823 04 00, 3823 05 00, 3823 06 00, 3823 07 00, 3823 08 00, 3823 09 00, 3823 10 00, 3823 11 00, 3823 12 00, 3823 13 00, 3823 14 00, 3823 15 00, 3823 16 00, 3823 17 00, 3823 18 00, 3823 19 00, 3823 20 00, 3823 21 00, 3823 22 00, 3823 23 00, 3823 24 00, 3823 25 00, 3823 26 00, 3823 27 00, 3823 28 00, 3823 29 00, 3823 30 00, 3823 31 00, 3823 32 00, 3823 33 00, 3823 34 00, 3823 35 00, 3823 36 00, 3823 37 00, 3823 38 00, 3823 39 00, 3823 40 00, 3823 41 00, 3823 42 00, 3823 43 00, 3823 44 00, 3823 45 00, 3823 46 00, 3823 47 00, 3823 48 00, 3823 49 00, 3823 50 00, 3823 51 00, 3823 52 00, 3823 53 00, 3823 54 00, 3823 55 00, 3823 56 00, 3823 57 00, 3823 58 00, 3823 59 00, 3823 60 00, 3823 61 00, 3823 62 00, 3823 63 00, 3823 64 00, 3823 65 00, 3823 66 00, 3823 67 00, 3823 68 00, 3823 69 00, 3823 70 00, 3823 71 00, 3823 72 00, 3823 73 00, 3823 74 00, 3823 75 00, 3823 76 00, 3823 77 00, 3823 78 00, 3823 79 00, 3823 80 00, 3823 81 00, 3823 82 00, 3823 83 00, 3823 84 00, 3823 85 00, 3823 86 00, 3823 87 00, 3823 88 00, 3823 89 00, 3823 90 00, 3823 91 00, 3823 92 00, 3823 93 00, 3823 94 00, 3823 95 00, 3823 96 00, 3823 97 00, 3823 98 00, 3823 99 00, 3823 00 00).

(c) reduce the customs duty for preferential areas in respect of goods falling under the following Chapters, headings, sub-headings or tariff items, namely:—

Chapter 25 (2504), 29 (2917 37 00, 2933 71 00, 2936, 2937, 2939 41, 2939 42 00, 2939 43 00, 2939 49 00, 2939 51 00, 2939 59 00, 2941), 30 (except 3005, 3006) 34 (3402 11 00, 3402 12 00, 3402 13 00, 3402 19 00), 38 (3801 10 00, 3802 10 00, 3812 10 00, 3815 11 00, 3815 12 10, 3815 12 90); and

(d) incorporate the amendments approved by the Customs Co-operation Council (World Customs Organization) in the legal text of the International Convention on the Harmonized Commodity Description and Harmonized Coding System to align the said Schedule with effect from 1st day of January, 2007 with the Harmonized System of Nomenclature.

Clause 64 seeks to amend section 12C of the Central Excise Act so as to provide that the surplus amount of service tax collected from any person after adjustment of said tax, shall be credited to the Customs Fund.

Clause 65 seeks to amend section 23C of the Central Excise Act so as to confer on the Advance Ruling Authority the power to decide the executability of any product.

Clause 66 seeks to amend the Third Schedule to the Central Excise Act so as to insert, omit or amend certain items and entries— (a) in Part I, with effect from the 1st day of January, 2007; and (b) in Part II, from a date to be notified by the Central Government.

Clause 67 seeks to amend the First Schedule to the Central Excise Tariff Act so as to— (a) decrease the tariff rate in respect of goods falling under Chapters 16, 19 (1902 11 00, 1902 19 00, 1902 20 10, 1902 20 10, 1902 30 10 and 1902 30 90), 1905 31 00, 1905 32 19, 1905 90 10 and 1905 90 20, 21 (2105 00 00), 50 (5004 00 00, 5005 00 22, 5006 00 31, 5006 00 32, 5006 00 33 and 5006 00 39), 51 (5105, 5106, 5107, 5108, 5109, 5110, 5111, 5112 and 5113), 52 (5204, 5205, 5206, 5207, 5208, 5209, 5210, 5211 and 5212), 53 (5302, 5304, 5305) (except 5305 90 10), 5306, 5308 20 00, 5308 90 10, 5308 90 90, 5309, 5310 and 5311), 54 (except 5402, 5403 and 5406), 55 (5508, 5509, 5510, 5511, 5512, 5513, 5514, 5515 and 5516), 56 (except tariff items 5601 10 00, 5601 22 00, 5607 10 10, 5607 10 90, 5608 11 10, 5608 11 90, 5608 12 10, 5608 13 00, 5608 14 00, 5608 15 00, 5608 16 00, 5608 17 00, 5608 18 00, 5608 19 00, 5608 20 00, 5608 21 00, 5608 22 00, 5608 23 00, 5608 24 00, 5608 25 00, 5608 26 00, 5608 27 00, 5608 28 00, 5608 29 00, 5608 30 00, 5608 31 00, 5608 32 00, 5608 33 00, 5608 34 00, 5608 35 00, 5608 36 00, 5608 37 00, 5608 38 00, 5608 39 00, 5608 40 00, 5608 41 00, 5608 42 00, 5608 43 00, 5608 44 00, 5608 45 00, 5608 46 00, 5608 47 00, 5608 48 00, 5608 49 00, 5608 50 00, 5608 51 00, 5608 52 00, 5608 53 00, 5608 54 00, 5608 55 00, 5608 56 00, 5608 57 00, 5608 58 00, 5608 59 00, 5608 60 00, 5608 61 00, 5608 62 00, 5608 63 00, 5608 64 00, 5608 65 00, 5608 66 00, 5608 67 00, 5608 68 00, 5608 69 00, 5608 70 00, 5608 71 00, 5608 72 00, 5608 73 00, 5608 74 00, 5608 75 00, 5608 76 00, 5608 77 00, 5608 78 00, 5608 79 00, 5608 80 00, 5608 81 00, 5608 82 00, 5608 83 00, 5608 84 00, 5608 85 00, 5608 86 00, 5608 87 00, 5608 88 00, 5608 89 00, 5608 90 00, 5608 91 00, 5608 92 00, 5608 93 00, 5608 94 00, 5608 95 00, 5608 96 00, 5608 97 00, 5608 98 00, 5608 99 00, 5609 00 00, 5609 01 00, 5609 02 00, 5609 03 00, 5609 04 00, 5609 05 00, 5609 06 00, 5609 07 00, 5609 08 00, 5609 09 00, 5609 10 00, 5609 11 00, 5609 12 00, 5609 13 00, 5609 14 00, 5609 15 00, 5609 16 00, 5609 17 00, 5609 18 00, 5609 19 00, 5609 20 00, 5609 21 00, 5609 22 00, 5609 23 00, 5609 24 00, 5609 25 00, 5609 26 00, 5609 27 00, 5609 28 00, 5609 29 00, 5609 30 00, 5609 31 00, 5609 32 00, 5609 33 00, 5609 34 00, 5609 35 00, 5609 36 00, 5609 37 00, 5609 38 00, 5609 39 00, 5609 40 00, 5609 41 00, 5609 42 00, 5609 43 00, 5609 44 00, 5609 45 00, 5609 46 00, 5609 47 00, 5609 48 00, 5609 49 00, 5609 50 00, 5609 51 00, 5609 52 00, 5609 53 00, 5609 54 00, 5609 55 00, 5609 56 00, 5609 57 00, 5609 58 00, 5609 59 00, 5609 60 00, 5609 61 00, 5609 62 00, 5609 63 00, 5609 64 00, 5609 65 00, 5609 66 00, 5609 67 00, 5609 68 00, 5609 69 00, 5609 70 00, 5609 71 00, 5609 72 00, 5609 73 00, 5609 74 00, 5609 75 00, 5609 76 00, 5609 77 00, 5609 78 00, 5609 79 00, 5609 80 00, 5609 81 00, 5609 82 00, 5609 83 00, 5609 84 00, 5609 85 00, 5609 86 00, 5609 87 00, 5609 88 00, 5609 89 00, 5609 90 00, 5609 91 00, 5609 92 00, 5609 93 00, 5609 94 00, 5609 95 00, 5609 96 00, 5609 97 00, 5609 98 00, 5609 99 00, 5610 00 00).

(b) merge the rates specified in the Second Schedule with the rates specified in the First Schedule in respect of goods falling under Chapter 21 (2106 90 20), 24 (2401, 2403 10 10, 2403 91 00, 2403 99 20, 2403 99 30, 2403 99 40, 2403 99 50, 2403 99 60 and 2403 99 90) and 87 (8702 10 11, 8702 10 12, 8702 10 19, 8702 90 11, 8702 90 12, 8702 90 19, 8703, 8704 10 90, 8704 31 00, 8704 32 11, 8704 32 19, 8704 32 30, 8704 32 31, 8704 32 32, 8704 32 33, 8704 32 34, 8704 32 35, 8704 32 36, 8704 32 37, 8704 32 38, 8704 32 39, 8704 32 40, 8704 32 41, 8704 32 42, 8704 32 43, 8704 32 44, 8704 32 45, 8704 32 46, 8704 32 47, 8704 32 48, 8704 32 49, 8704 32 50, 8704 32 51, 8704 32 52, 8704 32 53, 8704 32 54, 8704 32 55, 8704 32 56, 8704 32 57, 8704 32 58, 8704 32 59, 8704 32 60, 8704 32 61



ditions set out in clause (ea) of rule 4 of Part A of the Fourth Schedule for the purpose of said proviso.
Clause 68 of the Bill seeks to amend Chapter V of the Finance Act, 1994, relating to service tax, in the following manner:—
(a) sub-clause (D) of the said clause seeks to amend section 67 of the said Finance Act which empowers the Central Government to make rules for providing the manner of determination of amount and value of taxable services where the provision of service is for a consideration which is not ascertainable and sub-section (2) also empowers the Central Government to make rules for the purpose of determination of value.
(b) sub-clause (F) of the said clause seeks to insert a new section 73B which empowers the Central Government to fix, by notification, the rate of interest on the amount collected in excess by the service provider from the recipient of the service at such rate not below ten per cent. and not exceeding twenty-four per cent. per annum.
(c) further the said sub-clause also seeks to insert new sections 73C and 73D which empower the Central Government to make rules for providing the manner of provisional attachment of any property and publication of name and particulars of proceedings.
(d) sub-clause (I) of the said clause seeks to amend section 95 of the said Act so as to empower the Central Government to issue order for removal of any difficulty which may arise in implementing, classifying or assessing the value of any taxable service incorporated in the provisions of the Bill. The proviso to the said sub-section seeks to provide that any such order shall not be made beyond a period of one year from the date of the assent to the Bill.
2. The matters in respect of which notifications may be issued or rules may be made or Scheme may be framed in accordance with the above-said provisions of the Bill are matters of procedure and detail and it is not practicable to provide for them in the Bill itself.
3. The delegation of legislative power is, therefore, of a normal character.

will not be allowed as a deduction in the computation of profits and gains from business or profession. This amendment will take effect from 1st June, 2006.
[Clause 10]

Interest not 'actually paid' not eligible for deduction under section 43B
Under the existing provisions contained in clause (d) and clause (e) of section 43B, any sum payable by the assessee as interest on any loan or borrowing or advance referred to in the said clauses is allowed as deduction in the computation of income if the sum payable as interest is 'actually paid' by the assessee.
It is proposed to insert two new Explanations, namely, Explanation 3C and Explanation 3D to clarify that if any sum payable by the assessee as interest on any loan or borrowing or advance is converted into a loan or borrowing or advance, the interest so converted and not 'actually paid', shall not be deemed as 'actually paid' and not allowed as deduction in the computation of income under section 43B.
The amendment inserting Explanation 3C relating to interest converted into loan or borrowing will take effect retrospectively from 1st April, 1989 and the amendment inserting Explanation 3D relating to interest converted into loan or advance will take effect retrospectively from 1st April, 1997 and, accordingly, apply in relation to the assessment years 1989-1990 and 1997-1998 respectively and subsequent years thereafter.
[Clause 12]

Taxation of certain anonymous donations
Income of wholly charitable or religious trusts or institutions or partly charitable or religious trusts or institutions is exempt under the Income-tax Act subject to fulfillment of certain conditions.
In order to tax unaccounted money being contributed to these institutions by way of anonymous donations, it is proposed to insert a new section 115BDC so as to provide that any income by way of anonymous donations of the entities referred to in that section shall be included in the total income and taxed at the rate of 30 per cent.
Anonymous donations received by the following entities shall be covered by the new section:—
(i) any trust or institution referred to in section 10(23C) (iia) and (v);
(ii) any university or other educational institution referred to in section 10(23C) (iiaa) and (v);
(iii) any hospital or other institution referred to in section 10(23C) (iiae) and (via);
(iv) any fund or institution referred to in section 10(23C) (iv);
(v) any trust or institution referred to in section 10(23C) (v)
The following anonymous donations shall not be covered:—
(a) donations received by any trust or institution created or established wholly for religious purposes.
(b) donations received by any trust or institution created or established wholly for charitable purposes other than any anonymous donation made with a specific direction that such donation is for any university or other educational institution or any hospital or other medical institution run by such trust or institution.
It is also proposed to define anonymous donation to mean any voluntary contribution referred to in sub-clause (iia) of clause (24) of section 2, where a person receiving such contribution does not maintain a record consisting of the identity of the person making such contribution indicating the name and address of the person and such other particulars as may be prescribed.
Consequential amendments are proposed to be made in section 10(23C) and section 13 so as to provide that any income by way of any anonymous donation which is taxable under the provisions of the proposed new section 115BDC shall not be excluded from the total income of the assessee. These amendments will take effect from 1st April, 2007 and will accordingly apply in relation to the assessment year 2007-2008 and subsequent years.
Certain educational and medical institutions are also proposed to be made in sub-clause (iia) of clause (24) of section 2 to include voluntary contributions received by certain educational and medical institutions in the definition of income. The amendment is retrospective in the case of some institutions.
[Clauses 3, 4, 6 and 22]



FINANCE BILL, 2006
PROVISIONS RELATING TO DIRECT TAXES

The provisions in Finance Bill, 2006, in the sphere of direct taxes relate to the following matters:—
(i) Prescribing the rates of income-tax on incomes liable to tax for the assessment year 2006-2007; the rates at which tax will be deductible at source during the financial year 2006-2007 from interest (including interest on securities), winnings from lotteries or crossword puzzles, winnings from horse races, card games and other categories and other categories of income liable to deduction or collection of tax at source under the Income-tax Act, rates for computation of 'advance tax', deduction of income-tax from or payment of tax on 'Salaries' and charging of income-tax on current incomes in certain cases for the financial year 2006-2007.
(ii) Amendment of the Income-tax Act, inter-alia, to rationalise and simplify the procedures, and widen the tax base.
(iii) Amendment of the Wealth-tax Act to streamline the assessment procedure.
2. Subject to certain exceptions, which have been indicated while dealing with the relevant provisions, the Bill follows the principle that changes in the provisions of the tax laws, should ordinarily be made operative prospectively in relation to the current incomes and not in relation to the incomes of past years. The substance of the main provisions in the Bill relating to direct taxes is explained in the following paragraphs:—

RATES OF INCOME TAX

I. Rates of income-tax in respect of income liable to tax for the assessment year 2006-07
In respect of income of all categories of tax payers (corporate as well as non-corporate) liable to tax for the assessment year 2006-2007, the rates of income-tax have been specified in Part I of the First Schedule to the Bill. These are the same as those laid down in Part III of the First Schedule to the Finance Act, 2005, for the purposes of computation of 'advance tax', deduction of tax at source from 'Salaries' and charging of tax payable in certain cases. It has also been specified that in the case of individuals, Hindu undivided families, association of persons and body of individuals having total income exceeding Rs. 10,00,000/-, the tax so computed after rebate under Chapter VIII-A shall be enhanced by a surcharge at the rate of ten per cent for purposes of the Union. In the case of every artificial juridical person, firm, and domestic company, the tax so computed shall be enhanced by a surcharge of ten per cent. In the case of local authority and co-operative society, no surcharge is levied. In the case of every company, other than a domestic company, the tax so computed shall be enhanced by a surcharge of two and one-half per cent.
An additional surcharge, called the 'Education Cess on Income Tax' so as to fulfil the commitment of the Government to provide universalised quality education, is proposed to be levied at the rate of two per cent. on the amount of tax payable inclusive of surcharge in all cases.
II. Rates for deduction of income-tax at source during the financial year 2006-07 from income other than 'Salaries'
The rates for deduction of income-tax at source during the financial year 2006-2007 from incomes other than 'Salaries' have been specified in Part II of the First Schedule to the Bill. In the case of a non-resident (not being a company), the rate of deduction of tax at source during the financial year 2006-07 from income by way of royalties or fees for technical services received from the Government or an Indian concern in pursuance of an agreement entered into by it with the Government or an Indian concern after the 31st day of May, 1997 but before the 1st day of June, 2005 shall be 20 per cent and in pursuance of an agreement entered into on or after the 1st day of June, 2005, shall be 10 per cent. In the case of non-residents, the rate of deduction of tax at source during the financial year 2006-2007 from income by way of short-term capital gains referred to in section 111A, shall be 10 per cent. In all other cases, the rates are the same as those specified in Part I of the First Schedule to the Finance Act, 2005, for the purposes of deduction of income-tax at source during the financial year 2005-2006.
The amount of tax so deducted shall be increased by a surcharge:—
(i) in the case of every individual, Hindu undivided family, association of persons and body of individuals, whether incorporated or not, at the rate of ten per cent. of such tax where the income or the aggregate of such incomes paid or likely to be paid and subject to the deduction exceeds ten lakh rupees;
(ii) in the case of every firm, artificial juridical person and domestic company, at the rate of ten per cent. of such tax;
(iii) in the case of every company other than a domestic company at the rate of two and one-half per cent. of such tax.
No surcharge shall be levied on the amount of income tax or on the amount of tax inclusive of surcharge in all cases.
The additional surcharge, called the 'Education Cess on Income Tax' so as to fulfil the commitment of the Government to provide universalised quality education, shall be levied at the rate of two per cent. on the amount of tax inclusive of surcharge in all cases.
III. Rates for deduction of income-tax at source from 'Salaries', computation of 'advance tax' and charging of income-tax in special cases during the financial year 2006-2007
The rates for deduction of income-tax at source from 'Salaries' during the financial year 2006-2007 and also for computation of 'advance tax' payable during that year in the case of all categories of tax payers have been specified in Part III of the First Schedule to the Bill.
These rates are also applicable for charging income tax during the financial year 2006-2007 on current incomes in cases where accelerated assessment have to be made, e.g. provisional assessment of shipping profits arising in India to non-residents, assessment of persons leaving India for assessment purposes, assessment of persons who are likely to transfer property to avoid good during that financial year, assessment of persons who are likely to transfer property to avoid duration etc.
The salient features of the rates specified in the said Part III are proposed to be the same as that for financial year 2005-2006 preceding the assessment year 2006-07, as indicated in the following paragraphs:—

A. Individual, Hindu undivided family, association of persons, body of individuals, artificial juridical person
The basic exemption limit will continue to be Rs.1,00,000/-. Tax will be levied at the rate of 10 per cent. on incomes between Rs.1,00,000/- and Rs.1,50,000/-. On incomes between Rs.1,50,000/- to Rs.2,50,000/-, tax will be levied at the rate of 20 per cent. On incomes exceeding Rs.2,50,000/- tax will be levied at the rate of 30 per cent.
In the case of every individual, who is resident of India, who is below 65 years of age at any time during the previous year, the exemption limit will continue to be Rs.1,35,000/-. Tax will be levied at the rate of 10 per cent. on incomes between Rs.1,35,000/- and Rs.1,50,000/-. On incomes between Rs.1,50,000/- to Rs.2,50,000/-, tax will be levied at the rate of 20 per cent. On incomes exceeding Rs.2,50,000/-, tax will be levied at the rate of 30 per cent.
In the case of every individual, who is resident of India and is of the age of 65 years or more at any time during the previous year, the exemption limit will continue to be Rs.1,85,000/-. Tax will be levied at the rate of 20 per cent. on incomes between Rs.1,85,000/- and Rs.2,50,000/-. On incomes exceeding Rs.2,50,000/-, tax will be levied at the rate of 30 per cent.
The amount of income-tax computed shall, in the case of every individual or Hindu undivided family or association of persons or body of individuals, having total income exceeding ten lakh rupees be reduced by the amount of rebate of income-tax calculated under Chapter VIII-A. The income-tax so reduced shall be increased by a surcharge for purposes of the Union calculated at the rate of ten per cent. of total amount payable as income-tax and surcharge on total income exceeding ten lakh rupees shall not exceed the total amount payable as income-tax on a total income of ten lakh rupees more by more than the amount of income tax that exceeds ten lakh rupees.
In the case of every artificial juridical person, the amount of income-tax computed shall be reduced by the amount of rebate of income-tax calculated under Chapter VIII-A. The income-tax so reduced, shall be increased by a surcharge for purposes of the Union calculated at the rate of ten per cent. of such income-tax.
The additional surcharge, called the 'Education Cess on Income Tax', levied so as to fulfil the commitment of the Government to provide universalised quality basic education at the rate of two per cent. on the amount of tax inclusive of surcharge, is proposed to be continued.
B. Co-operative Societies
In the case of co-operative societies, the rates of income-tax have been specified in Paragraph B of Part III of the First Schedule to the Bill. These rates are the same as those specified in the corresponding paragraph of Part I of the First Schedule to the Bill and will continue to be the same as that for assessment year 2006-2007. No surcharge shall be levied.
C. Firms
In the case of firms, the rate of income tax has been specified in Paragraph C of Part III of the First Schedule to the Bill. This rate is the same as that specified in the corresponding paragraph of Part I of the First Schedule of the Bill and shall continue to be the same as that specified for assessment year 2006-2007. A surcharge for the purposes of the Union shall continue to be levied at the rate of ten per cent. of tax.
D. Local authorities
In the case of local authorities, the rate of income-tax has been specified in Paragraph D of Part III of the First Schedule to the Bill. This rate is the same as that specified in the corresponding paragraph of Part I of the First Schedule to the Bill and will continue to be the same as that for assessment year 2006-2007. No surcharge shall be levied.
E. Companies
In the case of companies, the rate of income-tax has been specified in Paragraph E of Part III of the First Schedule to the Bill. These rates are the same as that specified in the corresponding paragraph of Part I of the First Schedule to the Bill and shall continue to be the same as that specified for assessment year 2006-2007. A surcharge for the purposes of the Union shall continue to be levied at the rate of 10 per cent. of tax in the case of domestic companies and 2 1/2 per cent. in the case of foreign companies.
It is also proposed that the additional surcharge, called the 'Education Cess on Income-tax' for the purposes of the Union shall continue to be levied at the rate of two per cent. of income-tax and surcharge in all cases.
[Clause 2]

WIDENING AND RATIONALISING THE TAX BASE

Removal of exemption for certain incomes of Investor Protection Fund
Under the existing provisions contained in clause (23EA) of section 10, any income of a notified investor protection fund set up by recognised stock exchanges in India, either jointly or separately, is exempt from taxation.
It is proposed to restrict this exemption to income by way of contributions received from stock exchanges and the members thereof by amending the said clause (23EA). Their income from investment of such contributions shall become taxable.
This amendment will take effect from the 1st April, 2007 and will, accordingly, apply in relation to the assessment year 2007-2008 and subsequent years.
[Clause 4]

Removal of exemption of income from investment in infrastructure and other projects under section 10(23G)
Under the existing provisions contained in clause (23G) of section 10, any income by way of dividends, interest or long-term capital gains of an infrastructure capital fund or an infrastructure capital company or a cooperative bank from investments made on or after the 1st day of June, 1998 by way of shares or long-term finance in approved eligible businesses is exempt. Eligible businesses include infrastructure projects, developers of Special Economic Zones, hotel projects of not less than three star category, hospital projects with at least one hundred beds for patients and certain housing projects.
This exemption was intended to ensure low cost of raising capital for thrust area projects during an era of high interest rates and high tax rates. The tax rate as well as interest rate for borrowing of funds have since come down, reducing the overall cost of such projects. Exemption for dividends distributed by domestic companies is already available under section 10(34) of the Act. Long-term capital gains from transactions on which Securities Transaction Tax has been paid are also exempt under section 10(38). It is, therefore, proposed to omit clause (23G) of section 10 so as to make income from existing as well as future investments in eligible businesses taxable.
Consequential amendments are also proposed to be made to section 115-O of the Act to omit references to clause (23G) of section 10. These amendments will take effect from the 1st day of April, 2007 and will, accordingly, apply in relation to assessment year 2007-08 and subsequent years.
[Clauses 4 and 25]

Deduction in the computation of income of taxes paid on income earned outside India not allowable
Under the existing provisions of sub-clause (ii) of clause (a) of section 40, any sum paid on account of any rate or tax levied on the profits and gains of any business or profession or assessed at (b) portion of, or otherwise on the basis of, any such profits and gains (hereinafter referred to as income-tax) is not allowed as deduction in the computation of income. Further under the scheme of the Act, any such tax paid outside India is also not allowable as a deduction in the computation of income. However, such tax paid outside India is eligible for credit against tax payable in India on the global income of the person, in accordance with the provisions of section 90 or section 91, as the case may be.
Doubts have been expressed whether income-tax paid in a foreign country is eligible for deduction in the computation of profits and gains from business or profession. In this regard the judicial opinion is divided with overwhelming number of decisions being in favour of the Department. Nevertheless, some assesses continue to claim income tax paid in the foreign country both, as deduction in the computation of profits and gains from business or profession and also as credit against tax payable on their global income. This double benefit claimed by some taxpayers is against the legislative intent.
With a view to ending the judicial conflict, it is proposed to amend the Income-tax Act by inserting Explanation 1 to sub-clause (ii) of clause (a) of section 40 of the Income-tax Act so as to clarify that any sum paid outside India and eligible for relief of tax under section 90 or deduction from the income-tax payable under section 91 is not allowable, and is deemed to have never been allowable, as a deduction under section 40 of the Income-tax Act. However, the tax payers will continue to be eligible for tax credit in respect of income tax paid in a foreign country in accordance with the provisions of section 90 or section 91, as the case may be.
This amendment is clarificatory in nature and is inserted in the Income-tax Act on 1st April, 2006.
It is further proposed to insert Explanation 2 to provide that any sum paid outside India and eligible for relief of tax under newly inserted section 90A

will not be allowed as a deduction in the computation of profits and gains from business or profession. This amendment will take effect from 1st June, 2006.
[Clause 10]

Change in definition of 'long-term specified asset' for exemption 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 expression 'long term specified asset' has been defined in clause (b) of the Explanation to the said section to mean any bond redeemable after three years issued (i) on or after 1st April, 2000 by the National Bank for Agriculture and Rural Development, (ii) on or after 15th April, 2002 by the National Housing Bank or by the Small Industries Development Bank of India.
With a view to raise tax revenues and also to channelise funds towards focused development of roads, highways, and rural electrification infrastructure, it is proposed to amend the said section so as to restrict the benefit of tax exemption only in respect of long-term capital gains invested in those bonds which are issued after three years, are issued by the National Highways Authority of India, or by the Rural Electrification Corporation Limited, on or after 15th April, 2006 and are notified by the Central Government for the purposes of the said section.
This amendment will take effect from 15th April, 2006.
[Clause 13]

Withdrawal of exemption under section 54ED
The existing provisions of section 54ED provide that the capital gains arising from transfer of long term capital asset, being listed securities or units of a mutual fund or of the Unit Trust of India shall be exempt from tax, to the extent such gains are invested in equity shares forming part of an eligible issue of capital, made by a public company, and offered for subscription to the public.
Finance Act, 2004, Securities Transaction Tax has been levied on the value of certain specified transactions of equity shares of a company or units of an equity oriented mutual fund. Consequently under the levy of the securities transaction tax, the long term capital gains arising from transfer of an equity share of a company or unit of an equity oriented mutual fund is exempt from tax, to the extent such gains are invested in equity shares forming part of an eligible issue of capital, made by a public company, and offered for subscription to the public.
This exemption is being withdrawn with effect from 1st April, 2007 and will, accordingly, apply in relation to the assessment year 2007-2008 and subsequent years.
This amendment will take effect from 1st April, 2007 and will, accordingly, apply in relation to the assessment year 2007-2008 and subsequent years.
[Clause 14]

Rationalisation of provisions relating to Minimum Alternate Tax
Section 115JB provides that, in case of a company, if the tax payable on the total income as computed under the Income-tax Act in respect of any previous year relevant to the assessment year commencing on or after the 1st April, 2001 is less than seven and one-half per cent. of book profit, such book profit shall be deemed to be the total income of the assessee and the tax payable for the relevant previous year shall be seven and one-half per cent. of such book profit.
Since the credit for MAT paid under section 115 JB has been introduced from assessment year 2006-07 by Finance Act 2005, and the period for availing the MAT credit is proposed to be increased from five years to seven years, it is proposed to amend sub-section (1) of the said section to provide that if the income-tax payable on the total income as computed under the Income-tax Act in respect of any previous year relevant to the assessment year if the income-tax payable on the 1st April, 2007 is less than ten per cent. of its book profit, such book profit shall be deemed to be the total income of the assessee and the tax payable for the relevant previous year shall be ten per cent. of such book profit.
The Explanation to sub-section (2) of section 115JB says that 'book profit' means the net profit as shown in the profit and loss account for the relevant previous year, prepared in accordance with the provisions of Parts II and III of Schedule VI to the Companies Act, 1956, and as increased or reduced by certain adjustments as specified in the said Explanation. The aforesaid Explanation, inter-alia, provides that the book profit shall be increased by the amount or amounts of expenditure relating to any income referred to in section 10 (other than the provisions contained in clause (23G) thereof) if any such amount is debited to the profit and loss account and it shall be reduced by the amount of income referred to in the said section 10 if any such amount is credited to the profit and loss account.
It is proposed to amend the said section to provide that the book profit shall be reduced by the amount of income referred to in section 10 (excluding the income referred to in clause (38) thereof) if any such amount is credited to the profit and loss account, and it shall be increased by the amount or amounts of expenditure relating to any income referred to in section 10 (excluding the income referred to in clause (38) thereof) if any such amount is debited to the profit and loss account.
The proposed amendment is consequential to omission of clause (23G) of section 10 vide clause 4 of the Bill.
It is further proposed to amend clause (f) of the aforesaid Explanation to provide that the book profit shall be increased by the amount or amounts of expenditure relating to any income referred to in section 10 (excluding the income referred to in clause (38) thereof) if any such amount is debited to the profit and loss account, and it shall be reduced by the amount or amounts of expenditure relating to any income referred to in section 10 (excluding the income referred to in clause (38) thereof) if any such amount is credited to the profit and loss account.
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The proposed amendment is consequential



# Explanatory Memorandum

These amendments will take effect from 1st April, 2007 and will, accordingly, apply in relation to the assessment year 2007-2008 and subsequent years. [Clauses 34, 48, 49 and 50]

**Payment of interest for TDS or TCS default before furnishing TDS or TCS quarterly statements and deeming the person who fails to collect or pay the tax collected at source as an assessee in default**

Under the provisions of sub-section (1A) of section 201, if any person responsible for deduction of tax at source does not deduct the whole or any part of the tax or after deducting fails to pay the tax as required under the Income-tax Act, such person is held liable to pay simple interest at twelve per cent. per annum on the amount of such tax from the date on which such tax was deductible to the date on which such tax is actually paid. Similar provisions exist in respect of tax collection at source under sub-section (7) of section 206C. In order to mandate payment of interest on self-assessment basis, it is proposed to amend sub-section (1A) of section 201 so as to provide that the person, the principal officer and the company referred to in sub-section (1) of the aforesaid section and liable to pay interest under the said sub-section (1A) shall pay such interest before furnishing the quarterly statement for each quarter in accordance with the provisions of sub-section (3) of section 200. On similar lines it is also proposed to amend sub-section (7) of section 206C so as to provide that the person responsible for collection of tax and liable to pay interest under the said sub-section (7) shall pay such interest before furnishing the quarterly statement for each quarter in accordance with the provisions of sub-section (3) of that section. These amendments will take effect from 1st June, 2006. It is also proposed to insert a new sub-section (6A) in section 206C to provide that any person responsible for collecting tax shall be deemed to be an assessee in default if such person does not collect the whole or any part of the tax or fails to pay such tax after having collected the tax. This amendment will take effect from 1st April, 2007 and will, accordingly, apply in relation to the assessment year 2007-2008 and subsequent years. [Clauses 42 and 47]

**Doing away with furnishing of annual TDS and TCS returns**

Under the existing provisions of section 206 and sub-section (3) of section 206C, any person responsible for deducting or collecting tax under the Income-tax Act is required to prepare and deliver the prescribed income-tax authority an annual return of tax deducted or collected at source. A system of quarterly statements of TDS and TCS has been introduced for the taxes deducted or collected on or after 1st April, 2005 under the provisions of sub-section (3) of section 200 and those of sub-section (3) of section 206C. With the introduction of quarterly statements, the requirement of furnishing annual TDS and TCS returns has become redundant. Therefore, it is proposed to do away with the requirement of furnishing of the annual return of tax deducted or collected at source in respect of taxes deducted or collected on or after 1st April, 2005. Failure to furnish the annual return for tax deduction or collection at source before 1st day April, 2005 shall continue to attract penalty under section 272A of the Income-tax Act. Since furnishing of quarterly statements is proposed to fully replace the annual returns, as a consequence, penal provisions for failure to furnish quarterly statements have been aligned to failure to furnish annual returns and it is proposed that the penalty leviable for failure to deliver the statements under clause (b) of sub-section (2) of section 272A shall not exceed the amount of tax deductible or collectible, as the case may be. Under the existing provisions of sub-sections (5B) and (5D) of section 139A, every person deducting or collecting tax shall quote the permanent account number (PAN) of the person from whose income, tax has been deducted or, as the case may be, on whose income, tax has been collected, in all returns prepared and delivered or caused to be delivered in accordance with the provisions of section 206 or sub-section (5A) of section 206C. Similarly under section 203A, TAN is required to be quoted in all challans and annual returns etc. It is proposed to extend such requirement of quoting of PAN and TAN in all quarterly statements prepared and delivered or caused to be delivered in accordance with the provisions of sub-section (3) of section 200 or proviso to sub-section (3) of section 206C as furnishing of annual returns is proposed to be discontinued. The amendments in relation to doing away with annual returns of tax deduction or collection at source under sections 206 and 206C will take effect from 1st April, 2006 and other amendments to sections 139A and 272A take effect from 1st June, 2006. [Clauses 32, 44, 46, 47 and 53]

**Clarificatory amendment regarding the time limit for issue of notice under section 142**

The existing provisions contained in sub-section (1) of said section, inter-alia, provide that for the purposes of making assessment in a case where a person has not made a return of his income within the time specified under sub-section (1) of section 139, the Assessing Officer may serve a notice under the said sub-section on such person requiring him to furnish the return of his income in the prescribed form and manner. It is proposed to amend clause (i) of sub-section (1) so as to provide that in a case where a person has not made a return of his income before the end of the relevant assessment year, the Assessing Officer may serve a notice after the end of the relevant assessment year under said sub-section requiring such person to furnish his return of income. This amendment will take effect from 1st April, 2006. It is also proposed to insert a proviso to the said clause (i) so as to provide that where any notice has been served on or after 1st April, 1990 under sub-section (1) after the end of the relevant assessment year to any person who has not made a return of his income before the end of the relevant assessment year, such notice shall be deemed to be a notice served in accordance with the provisions of the aforesaid sub-section (1). This amendment will take effect retrospectively from 1st April, 1990. [Clause 35]

**The time limit for issue of notice under sub-section (2) of section 143 for the purposes of making assessment or re-assessment under section 147**

Under the existing provisions of sub-section (1) of section 148 it has been provided that before making any assessment, reassessment or re-computation under section 147, 148, the Assessing Officer shall serve a notice under section 148, on the assessee, requiring him to furnish his return of income and the provisions of the Act shall apply as if the return furnished in response to such notice were a return required to be furnished under section 139. It is proposed to insert a proviso to sub-section (1) so as to provide that where a return has been furnished during the period from 1st October, 1991 to 30th September, 2005 in response to a notice served under section 148 and, subsequently a notice has been served under sub-section (2) of section 143 after the expiry of the time limit specified in the proviso to sub-section (2) of section 143 as it stood immediately before the amendment of said sub-section by the Finance Act, 2002, but before the expiry of the time limit for making the assessment, reassessment or re-computation as specified in sub-section (2) of section 153, such notice shall be deemed to be valid notice. It is further proposed to insert a proviso in the said sub-section so as to provide that where a return has been furnished during the period from 1st October, 1991 to 30th September, 2005 in response to a notice served under section 148 and, subsequently a notice has been served under sub-section (2) of section 143 after the expiry of twelve months specified in the proviso to clause (ii) of sub-section (2) of section 143, but before the expiry of the time limit for making the assessment, reassessment or re-computation as specified in sub-section (2) of section 153, such notice shall be deemed to be valid notice. These amendments will take effect retrospectively from 1st October, 1991. It is also proposed to insert an Explanation in sub-section (1) so as to clarify that the provisions of the newly inserted first proviso or the second proviso shall not apply in relation to any return which has been furnished on or after 1st October, 2005 in response to a notice served under sub-section (1) of section 148. This amendment will take effect retrospectively from 1st October, 2005. [Clause 36]

**Reduction of the time limits provided for completion of assessment and reassessment**

The existing provisions of section 153 provide the time limit for completion of assessments and reassessments. Section 153B of the Income-tax Act provides the time limit for completion of assessment in cases where search has been initiated under section 132 or books of account, other documents or any assets have been requisitioned under section 132A. The existing provisions of Section 17A of the Wealth-tax Act provide the time limit for completion of assessment and reassessments of the net wealth. It is proposed to revise the time limits specified for completion of assessments and re-assessments in sections 153, 153B of the Income-tax Act, and in section 17A of the Wealth-tax Act so that the demand raised during a financial year could be collected in same year. The revised time limits shall be the time limits specified under the aforesaid section, as reduced by three months. These amendments will take effect from 1st June, 2006. [Clauses 37, 38 and 57]

**Modification of the return form**

The existing provisions of sub-section (9) of section 139 provide that where the Assessing Officer considers that the return of income filed by an assessee is defective, he may intimate the assessee and give him an opportunity to rectify the same within fifteen days. The Explanation to the said sub-section provides that a return of income shall be regarded as defective unless, the conditions specified in clauses (a) to (f) of the Explanation to the said sub-section are fulfilled. It is proposed to insert a proviso in the Explanation to the said sub-section (9) so as to confer power upon the Central Board of Direct Taxes to dispense with any of the conditions specified in clauses (a) to (f) of the Explanation to the said sub-section, in respect of a class or classes of persons. It is also proposed to provide that the Board shall have the power to frame rules so as to include any of the conditions specified in clauses (a) to (f) of the Explanation in the forms of return of income prescribed under sub-section (1) and sub-section (6) of section 139. This amendment will take effect from 1st June, 2006. [Clause 31]

**Rationalisation of provisions relating to Transfer Pricing**

The existing provisions contained in section 92C provide for computation of arm's length price. Sub-section (2) of the said section provides that the most appropriate method for computation of arm's length price is the method specified in sub-section (3) of the said section in the order in which the Assessing Officer can determine the arm's length price in a case. Under sub-section (4) it has been provided that on the basis of the arm's length price so determined, the Assessing Officer may compute the total income of an assessee. The first proviso to sub-section (4) provides that where the total income of an assessee as computed by the Assessing Officer is higher than the income declared by the assessee, no deduction under section 10A or section 10B or under Chapter VI-A shall be allowed in respect of the amount of income by which the total income of the assessee is enhanced after computation of income under this sub-section. Sections 10A and 10B provide deductions in respect of the profits and gains derived from exports. Section 10AA also provides for deduction of profits and gains derived from exports, in respect of newly established units in Special Economic Zones. With a view to rationalise the provisions of sub-section (4) of section 92C, it is proposed to amend the first proviso to the said sub-section so as to provide that no deduction under section 10AA shall be allowed in respect of the amount of income by which the total income of the assessee is enhanced after computation of income under sub-section (4). This amendment will take effect from 1st April, 2007 and will, accordingly, apply in relation to the assessment year 2007-08 and subsequent years. [Clause 27]

**Penalty for false quoting of TAN**

Under the existing provisions of section 272BB of the Income-tax Act, a person becomes liable for penalty of a sum of ten thousand rupees if he fails to comply with the provisions of section 203A which require him to apply to the Assessing Officer for the allotment of a "tax deduction and collection account number". After allotment of the "tax deduction and collection account number", the deductor or, as the case may be, the collector is required to quote such number in all challans, certificates, returns and other documents. Under the existing provisions, no penalty is specified for quoting a false "tax deduction and collection account number" even though a penalty is already specified for quoting or intimating a false "permanent account number" under section 272B. The provisions of section 203A are as severe as quoting a false PAN. Quoting of false TAN as does the quoting of false PAN results in getting the tax deducted or collected posted to suspense account and not to the account of the deductee or collectee. It has been learnt that certain bank branches having not applied for TAN, are quoting TAN allotted to other branches of the same bank. In such events, the computer system does not accept two different returns from the two branches bearing the same TAN. False quoting of PAN and TAN has been one of the reasons for tardy progress of dematerialisation of the existing system. In order to make quoting of TAN by the deductor or collector more difficult, it is proposed to amend section 203A to be enforced. Until all taxes deducted or collected are matched in the On-Line Tax Accounting System (OLTAS) and complete information is populated in the deductees' or collectees' accounts, dematerialisation may not fully substitute for the existing paper based system. If past experience is any guide, mere existence of the provisions, requiring the deductors and the collectors to apply for TAN and quote the same in the specified documents, has not yielded desired compliance in the absence of penalty provisions for quoting a false TAN. It is, therefore, proposed to insert a new sub-section (1A) in section 272BB so as to provide that, if a person who is required to quote his "tax deduction account number" or "tax collection account number" or "tax deduction and collection account number" in the challans, certificates, statements or other documents referred to in sub-section (2) of section 203A, quotes a number which is false and which he either knows or believes to be false or does not believe any such person should pay by way of suspense account, he shall be liable for penalty under section 272BB. Further, under the existing provisions contained in sub-section (2), no penalty can be imposed unless the person concerned has been given a reasonable opportunity of being heard. It is proposed to amend sub-section (2) so as to include a reference of sub-section (1A) therein for the purpose of giving an opportunity of being heard to the person on whom the penalty is to be imposed under the said sub-section (1A). These amendments will take effect from 1st June, 2006. [Clauses 54 and 55]

**Penalty for failure to collect tax at source**

No penalty is so far specified under the Income-tax Act for failure to collect tax at source. Subsequent to expansion of the provisions of tax collection at source, Board has been receiving information from various quarters that in a number of cases collection of tax was not being made by the persons responsible for collecting tax. It is, therefore, proposed to insert a new section 271CA so as to provide for imposition of penalty on any person who is responsible for collecting tax and who has failed to collect tax at source in accordance with the provisions of Chapter XVII-BB of the Act. Such penalty is proposed to be a sum equal to the amount of tax which he failed to collect at source. The order of penalty is proposed to be made an appealable order under section 246A. It is further proposed through an amendment to section 273B that no penalty shall be imposed if the concerned person proves that there was a reasonable cause for his failure. This amendment will take effect from 1st April, 2007 and will, accordingly, apply in relation to the assessment year 2007-2008 and subsequent years. [Clauses 51, 52 and 53]

**Deferment of dematerialisation of TDS and TCS certificates**

Finance (No.2) Act, 2004 introduced a new procedure under the provisions of sub-section (3) of section 203 in respect of tax deduction at source and under the first proviso to sub-section (5) of section 206C in respect of tax collection at source laying down that the deductor or, as the case may be, the collector shall not be required to issue TDS or TCS certificates to the deductee or, as the case may be, the collectee. As a consequence to doing away with the certificate, it was further provided under sub-section (3) of section 199 and under the proviso to sub-section (4) of section 206C that the deductor or the collectee will not be required to enclose a TDS or TCS certificate to his return of income for claiming credit of tax deducted or collected. Under the new procedure, credit for TDS or TCS was to be given by the Assessing Officer on the basis of annual statement of taxes in accordance with the provisions introduced under section 203AA in respect of TDS or in accordance with the second proviso to sub-section (5) of section 206C in respect of TCS. It was also provided under sub-section (9) of section 139 that the return of income shall not be deemed defective if it was not accompanied by proof of tax deducted. The above dematerialisation provisions were to come into force with effect from 1.4.2005 in respect of tax deducted or collected on or after 1.4.2005. Through the Finance Act, 2005, however, dematerialisation provisions were deferred by one year so as to come into force in relation to taxes deducted or collected or paid on or after 1st April, 2006. A substantial number of deductors have not started filing their quarterly statements which they are required to furnish under sub-section (3) of section 200 and under the proviso to sub-section (3) of section 206C. Quarterly statements are the primary documents from which details of tax deducted at source or tax collected at source are captured in the Departmental system. The On-Line Tax Accounting System (OLTAS) is yet to fully stabilize as failure to quote, and in many cases quoting of false PAN and TAN have resulted in getting the taxes deducted or collected or paid getting credited to the suspense account. The dematerialisation system is dependent on filing of TDS or TCS statements by all the deductors or collectors with correct PAN and TAN in all the TDS and TCS statements and challans. Until all taxes deducted, collected or paid are matched in the OLTAS and complete information is populated in the deductees' or collectees' accounts, dematerialisation cannot fully substitute for the existing paper based system. Keeping in view the aforesaid factors, it is proposed to defer the commencement of dematerialisation provisions by two years and make such provisions applicable for taxes deducted or paid (sub section (3) of section 203) or collected (1st proviso to sub-section (5) of section 206C) on or after 1st April, 2008. These amendments will take effect retrospectively from 1st April, 2006 and will, accordingly, apply in relation to the assessment year 2006-2007 and subsequent years. [Clauses 31, 41, 43, 45 and 47]

Under the existing provisions of sub-section (14) of section 155 credit for tax deducted at source is allowed if the certificate of tax deduction at source under section 203 was not filed originally with the return of income but is produced before the Assessing Officer within two years from the end of the relevant assessment year. The Bill proposes to extend this provision in respect of certificate of collection of tax at source in view of the proposed extension of proof under sub-section (9) of section 139 in respect of tax collected at source before the 1st day of April, 2008. This amendment will take effect from 1st April, 2007 and will, accordingly, apply in relation to the assessment year 2007-2008 and subsequent years. [Clauses 31 and 39]

**Benefits of certain deductions not to be allowed in cases where return is not filed within the specified time limit**

Section 80-IAB provides for a deduction from the total income in respect of the profits and gains derived by an undertaking or an enterprise from any business of developing a Special Economic Zone under the Special Economic Zones Act, 2005, for ten consecutive assessment years. The provisions contained in section 80-IB provide for deduction of the profits and gains of derived by the assessee from certain industrial undertakings established before the specified dates and engaged in specified business, for specified number of assessment years. The provisions contained in section 80-IC allow 100% deduction for specified number of years of the profits and gains of undertaking or an enterprise established before the specified dates in the notified areas, or engaged in trust area activities. It is proposed to amend section 10B and insert a new section 80 AC so as to provide that no deduction under section 10 B and section 80-IA, section 80-IAB, section 80-IB and section 80-IC shall be allowed to an assessee who does not furnish a return of his income on or before the due date specified in sub-section (1) of section 139. The proposed amendments will take effect from 1st April, 2006 and will, accordingly, apply in relation to the assessment year 2006-07 and subsequent years. [Clauses 5 and 15]

**Prescribing new class of persons for allotment of PAN and suo-moto allotment of PAN**

The existing provisions of sub-sections (1) and (1A) of section 139A provide for class of persons who are required to have a Permanent Account Number. It is proposed to insert a new sub-section (1B) so as to provide that for the purpose of collecting any information which may be useful for or relevant to the purposes of this Act, the Central Government may by way of notification specify any class or classes of persons, and such persons shall within the prescribed time apply to the Assessing Officer for allotment of a permanent account number. Under the existing provisions contained in sub-section (2) of the said section, the Assessing Officer may also allot to any other person by whom tax is to be deducted or collected at source, a permanent account number. It is proposed to amend the said sub-section so as to provide that the Assessing Officer may, having regard to the nature of transactions as may be specified by the rules made by the Central Board of Direct Taxes, also allot a permanent account number to any other person (whether any tax is payable by him or not), in accordance with the procedure as may be specified by such rules. This amendment will take effect from 1st June, 2006. [Clause 32]

**Omission of the one-by-six scheme**

Under the existing provisions of the Proviso to sub-section (1) of section 139 it has been provided that a person fulfilling any of the six expenditure/asset criteria listed therein, shall be required to furnish his return of income even if his total income is below the threshold limit. It is proposed to omit the said proviso so as to provide that no return shall be required to be furnished under the proviso for assessment year 2006-07 and subsequent years. This amendment will take effect from 1st April, 2006. [Clause 31]

**Clarification regarding the powers of the Board to issue directions regarding the power and function of the Income-tax authorities**

Section 120 relates to the jurisdiction of income-tax authorities. The existing provisions contained in sub-section (1) of the said section, provide that the income-tax authorities shall exercise all or any of the powers and perform all or any of the functions conferred on or assigned to, such authorities in accordance with directions issued by the Board for the exercise of such powers and functions by all or any of those authorities. With a view to clarify the intention of the legislature it is proposed to insert an Explanation to sub-section (1) of the said section so as to provide that any income-tax authority, being an authority higher in rank, may exercise the powers and perform the functions of the income-tax authority lower in rank, if it is so directed by the Board under the said section. It has also been provided that any such direction issued shall be deemed to be a direction issued by the Board under the said sub-section (1). This amendment will take effect retrospectively from 1st April, 1988. [Clause 30]

## IMPROVING TAX PAYERS SERVICE

**New Scheme to facilitate submission of returns through Tax Return Preparers**

It is proposed to insert a new section 139B in the Act so as to provide that for the purpose of enabling any specified class or classes of persons to prepare and furnish returns of income, the Board may, by way of notification, frame a scheme providing that such persons may furnish their returns of income through a Tax Return Preparer authorised to act as such under the scheme. It is further proposed to provide that the Scheme framed under the said section shall specify the manner in which the Tax Return Preparer shall assist the persons furnishing the return of income, and shall also specify the manner in which the Tax Return Preparer shall be authorised to act as a Tax Return Preparer under the scheme. It is also proposed to provide that a Tax Return Preparer may be an individual other than a person referred to in clause (ii) or clause (iv) of sub-section (2) of section 288 or an employee of the specified class or classes of persons, who has been authorised to act as a Tax Return Preparer under the proposed scheme. It is also proposed that Scheme notified under the said section shall provide the manner in which a Tax Return Preparer shall be authorised, the educational and other qualifications to be possessed, and the training and other conditions required to be fulfilled by a person to act as a Tax Return Preparer, the code of conduct for the Tax Return Preparer, the duties and obligations of the Tax Return Preparer, the manner in which the authorisation may be withdrawn, and any other matter which is required to be or may be specified. This amendment will take effect from 1st June, 2006. [Clause 33]

**EXTENDING THE SCOPE AND PERIOD OF TAX INCENTIVES AND MODIFYING THE EXEMPTION REGIME**

**Exemption of the constituency allowance of MLAs**

Under the existing provisions contained in clause (17) of Section 10, the following allowances received by a Member of Parliament or by a Member of any State Legislature or by a member of any Committee thereof are exempt:

- Daily Allowance received by a Member of Parliament or a Member of any State Legislature or by a member of any Committee thereof.
- Constituency Allowance received by a Member of Parliament.
- All other notified allowances received by a Member of a State Legislature or by a member of any Committee thereof upto an aggregate limit of Rs. 2,000/- per month.

With a view to bring uniformity in the tax treatment of allowances received by Members of Parliament and Members of State Legislatures, it is proposed to amend sub-clause (iii) of clause (17) of the said section so as to make the constituency allowance received by Members of State Legislatures fully exempt in as the case of Members of Parliament. All other allowances of Members of State Legislatures and members of any Committee thereof (excluding the constituency allowance) shall become fully taxable as in the case of Members of Parliament. This amendment will take effect from 1st April, 2007 and will, accordingly, apply in relation to the assessment year 2007-2008 and subsequent years. [Clause 4]

**Extension of exemption from levy of dividend distribution tax to close-ended equity oriented funds and change in the definition of equity oriented funds**

Under the existing proviso to sub-section (2) of Section 115R, dividend distribution tax is not payable in respect of any income distributed to unit holders of open-ended equity oriented funds in respect of any distribution made from such funds. An open-ended equity oriented fund is defined in the Explanation to section 115T so as to mean such fund where the investible funds are invested by way of equity shares in domestic companies to the extent of more than fifty per cent of the total proceeds of such fund. The percentage of equity shareholding is computed with reference to the annual average of the monthly averages of the opening and closing figures. With a view to provide close-ended funds a level playing field, it is proposed to omit the word "open-ended" from the proviso to sub-section (2) of section 115R and from the Explanation to section 115T so as to provide that all equity oriented funds shall not be liable to pay dividend distribution tax instead of only open-ended equity oriented funds. This amendment will take effect from 1st June, 2006.

Further, with a view to align the definition of equity oriented fund given in section 115T with the SEBI norms, it is proposed to amend the said Explanation to section 115T so as to provide that the exemption from dividend distribution tax shall be available only to those equity oriented funds which are invested by way of equity shares in domestic companies to the extent of more than sixty five per cent. of the total proceeds of such fund instead of the existing fifty per cent. The percentage of equity share holding of the fund shall continue to be computed with reference to the annual average of the monthly averages of the opening and closing figures.

Under the existing provisions contained in section 98 of the Finance (No.2) Act, 2004, Securities Transaction Tax is chargeable on purchase and sale of units of equity oriented funds as defined in clause (5) of section 97 of the said Act. Under section 10(38) of the Income-tax Act, income by way of long-term capital gain arising from transfer of equity share in a company or a unit of an equity oriented fund as defined in the Explanation to that section, excluding the transaction tax, is exempt from tax. With a view to align the definition of equity oriented fund with the SEBI norms, it is proposed to amend the definition of equity oriented fund in section 98 of the Finance (No.2) Act, 2004 and the Explanation to clause (38) of section 10, inter-alia, define "equity oriented fund" to mean a fund where the investible funds are invested by way of equity shares in domestic companies to the extent of more than fifty per cent. of the total proceeds of such fund. It is proposed to amend this definition so as to provide that "equity oriented fund" is a fund where the investible funds are invested by way of equity shares in domestic companies to the extent of sixty five per cent. of the total proceeds of such fund instead of the existing fifty per cent. This will align the definition with the SEBI norms and with the amended definition proposed in section 115T. These amendments will take effect from 1st June, 2006. [Clauses 4, 26, 27 and 76]

**Exemption on Aircraft lease rentals extended**

Clause (15A) of section 10 provides for exemption from income tax of the lease payment received in respect of a lease of an aircraft or an aircraft engine. The exemption is available only to a lease of an aircraft or an aircraft engine from an Indian company or a foreign enterprise from an Indian company engaged in the business of operation of aircraft. The exemption is available subject to the condition that the agreement for such lease is entered into prior to 1st April, 2006. In other words, the tax exemption is not available in respect of lease rent payments under an agreement into on or after 1st April, 2006. Further, clause (6BB) of section 10 also provides exemption from grossing of tax paid by the Indian company on lease payments under an agreement entered into after the 31st March, 2006.

It is proposed to provide that the exemption for lease payments shall continue with regard to agreements entered into on or before 31st March, 2007. The benefit of exemption from grossing of tax will consequently be available in respect of lease payments made in pursuance of agreements entered into after 31st March, 2007 when the lease payments become taxable. This amendment will take effect from 1st April, 2007 and will, accordingly, apply in relation to assessment year 2007-2008 and subsequent years. [Clause 4]

**Extending benefits of section 80 C to fixed deposits in banks**

Section 80 C provides for a deduction of rupees one lakh to an individual or a Hindu undivided family, with respect to sums paid or deposited in certain specified schemes. The investments or payments eligible for deduction include life insurance premia, contributions to provident fund or schemes for deferred annuities, purchase of infrastructure bonds, payment of tuition fees, repayment of principal amount of housing loans, etc. Further, in order to minimise distortions, there are no sectoral caps and the assessee is free to choose any one or more of the eligible avenues within the overall ceiling specified in section 80C. Sub-section (2) of Section 80C, provides that the amount paid or deposited in the previous year in schemes specified in clause (i) to clause (xx) is eligible for deduction under the said section. To provide a level playing field amongst banks and other institutions like insurance companies, mutual funds, etc. it is proposed to insert a new clause (xxi) in sub-section (2) of section 80 C so as to provide that investment in a term deposit for a fixed period of not less than 5 years which any scheduled bank shall be eligible for deduction under the said section. It is also proposed to define the expression "scheduled bank" for this purpose. Clause (xi) of sub-section (2) refers to contribution in the name of any person specified in sub-section (4) of section 80C for participation in any such Unit-linked insurance plan of the LIC mutual fund notified under clause (23D) of section 10 as the Central Government may, by notification, specify. Clause (xxii) of the said sub-section refers to subscription to any units of any mutual fund notified under clause (23D) of section 10 or from the administrator or the specified company under any plan formulated in accordance with such scheme as may be notified by the Central Government. Clause (xiv) of the said sub-section refers to the contribution by an individual to any pension fund set up by any mutual fund notified under clause (23D) of section 10 or by the administrator or the specified company, as the Central Government may, by notification, specify. Since clause (23D) of section 10 has since been amended and it also refers to a mutual fund registered under Securities and Exchange Board of India Act, 1992 or regulations made thereunder, it is proposed to amend the provisions of clauses (xi), (xxii) and (xiv) of sub-section (2) so as to substitute the words "notified under clause (23D)" by the words "referred to in clause (23D)". This would align the provisions of these clauses with that of clause (23D) of section 10. This amendment is only for the purposes of aligning the provisions of section 80 C with that of clause (23D) of section 10. These amendments will take effect from 1st April, 2007 and will, accordingly, apply in relation to the assessment year 2007-2008 and subsequent years. [Clause 16]

**Rationalisation of provisions relating to deduction of health insurance premium paid by the employer and exempt status of such payments in the hands of employees**

Any salary due or paid or allowed to an employee by the employer is chargeable to tax under the head 'salaries'. The term 'salary' has been defined in section 17 which, inter-alia, includes wages, pension, perquisites or profits in lieu of or in addition to salary. However, clause (iii) of the proviso to clause (2) of section 17, exempts any premium paid by an employer to effect or to keep in force an insurance on the health of such an employee, from the purview of perquisite, provided it is in accordance with the scheme approved by the Central Government for the purposes of section 36(1)(b). Section 36(1)(b) refers to a scheme framed by the General Insurance Corporation under section 9 of the General Insurance Business (Nationalisation) Act 1972 and approved by the Central Government. Clause (iv) of the proviso to clause (2) of section 17 similarly exempts reimbursement of medical insurance premium of employees provided it is in accordance with the scheme approved by the Central Government for the purposes of section 80D. Section 80D, as amended by the Finance Act 2004, provides that the scheme should be either a scheme framed by the General Insurance Corporation under the General Insurance Business (Nationalisation) Act 1972 or it should be in accordance with the scheme of any other insurer which is approved by the Insurance Regulatory Development Authority under the Insurance Regulatory and Development Authority Act, 1999. Section 36(1)(b) provides that an employer is entitled to a deduction in the computation of his profits and gains from business or profession, in respect of the amount of any premium paid by cheque by him to keep in force an insurance on the health of his employees, if the deduction is available only if the insurance is in accordance with a scheme framed by the General Insurance Corporation of India and approved by the Central Government for this purpose.

With a view to align the provisions of section 36(1)(b) with those of section 80D, it is proposed to substitute the said clause (b) so as to also provide for a deduction of the amount of any premium paid by cheque by the assessee, as an employer, to keep in force an insurance on the health of his employees under a scheme framed by any other insurer and approved by the Insurance Regulatory and Development Authority established under sub-section (1) of section 3 of the Insurance Regulatory and Development Authority Act, 1999. Further, as a rationalisation measure, it is also proposed to amend the provisions contained in clauses (iii) and (iv) of the proviso to clause (2) of section 17, so as to provide that any premium paid by the employer or reimbursement of premium paid by the employees, in health insurance schemes



of other insurers, approved by the Insurance Regulatory and Development Authority, shall also be exempt from the purview of requisites. These amendments will take effect from 1st April, 2007 and will, accordingly, apply in relation to the assessment year 2007-2008 and subsequent years. [Clauses 8 and 9]

**Rationalisation of provisions of section 80 CCC**  
Section 80 CCC provides that an assessee, being an individual, shall be allowed a deduction (up to rupees ten thousand) from his total income of the amount paid or deposited by him to effect or keep in force a contract for any annuity plan of Life Insurance Corporation of India or any other insurer for receiving pension from the fund referred to in clause (23AAB) of section 10. Since the deduction available under section 80 C and section 80 CCC are capped by an overall limit of rupees one lakh, as laid down in section 80 CCE, and there are no sectoral caps in section 80 C, it is proposed to align the provisions of the two sections by amending the provisions of section 80 CCC so as to increase the limit of investment from rupees ten thousand to rupees one lakh. It may be reiterated that the proposed amendment will be subject to the overall cap of rupees one lakh provided under section 80 CCE. This amendment will take effect from 1st April, 2007 and will, accordingly, apply in relation to the assessment year 2007-2008 and subsequent years. [Clause 17]

**Extension of tax benefits to the Power Sector**  
Section 80 IA of the Income Tax Act provides for deductions in respect of profits and gains from industrial undertakings or enterprises engaged in infrastructure development etc. Clause (iv) of sub-section (4) of the said section provides that an undertaking which (a) is set up in India for generation or generation and distribution of power, if it begins to generate power during the period beginning on 1st April, 1993 and ending on 31st March, 2006; (b) starts transmission or distribution by laying a network of new transmission or distribution lines during the period beginning on 1st April, 1999 and ending on 31st March, 2006; (c) undertakes substantial renovation and modernisation of the existing network of transmission or distribution lines at any time during the period beginning on 1st April, 2004 and ending on 31st March, 2006, is eligible for deduction under the said section. Under the existing provisions, the deduction is not available to undertakings which start generation, or transmission or distribution by laying a network of new transmission or distribution lines after 31.3.2006, or undertake substantial renovation and modernisation of the existing network of transmission or distribution lines after the said date. Since the Government is committed to provide power to all by 2012, it is proposed to amend sub-clauses (a) (b) and (c) of clause (iv) of sub-section (4) of section 80 IA to extend the time limit from 31.3.2006 to 31.3.2010. This amendment will take effect from 1st April, 2007 and will, accordingly, apply in relation to the assessment year 2007-2008 and subsequent years. [Clause 18]

**Extension of tax benefits to Industrial Parks**  
Section 80 IA of the Income Tax Act provides for deductions in respect of profits and gains from industrial undertakings or enterprises engaged in infrastructure development, etc. Clause (iii) of sub-section (4) of the said section provides that an undertaking which develops, develops and operates or maintains and operates an industrial park or special economic zone notified by the Central Government in accordance with the scheme framed and notified by it for the period beginning on 1st April, 1997 and ending on 31st March, 2006, is eligible for deduction under the said section. To continue attracting investment to the industrial parks, it is proposed to amend clause (iii) of sub-section (4) of section 80 IA to extend the time limit from 31.3.2006 to 31.3.2009. This amendment will take effect from 1st April, 2007 and will, accordingly, apply in relation to the assessment year 2007-2008 and subsequent years. [Clause 19]

**Provisions relating to exemption of specified income of certain bodies or authorities**  
It is proposed to insert a new clause in section 10 of the Income Tax Act to provide exemption from income tax to any specified income of a non-profit body or authority notified by the Central Government which is established, constituted or set up under a mutual treaty, agreement, or convention, or to which the Central Government is a signatory. The nature and extent of income to be exempted will also be notified by the Central Government. This amendment will take effect retrospectively from 1st April, 2006. [Clause 4]

### MISCELLANEOUS

**Definition of infrastructure capital company, infrastructure capital fund and infrastructure facility**  
Under the existing provision of Income Tax Act, infrastructure capital fund and infrastructure capital company have been defined in clause (23G) of section 10. Further, this definition is also with reference to section 80-IA and 80-IB. The definition of infrastructure capital company and infrastructure capital fund existing in clause (23G) of section 10 has been used in the Income-tax Act in various other provisions. Since clause (23G) of section 10 is proposed to be omitted from the Income-tax Act, it is proposed to amend section 2 of the Income-tax Act so as to provide for a general definition of infrastructure capital company and infrastructure capital fund. This amendment will take effect from the 1st day of April, 2006. Further, consequent to the proposal to omit clause (23G) of section 10, it is also proposed to define infrastructure facility for the purposes of clause (d) of the Explanation of clause (viii) of sub-section (1) of section 36 of the Income-tax Act, to mean— (i) an infrastructure facility as defined in the Explanation to clause (i) of sub-section (4) of section 80-IA, or any other public facility of a similar nature as may be notified by the Board in this behalf in the Official Gazette and which fulfils the conditions as may be prescribed; (ii) an undertaking referred to in clause (ii) or clause (iii) or clause (iv) of sub-section (4) of section 80-IA; and (iii) an undertaking referred to in sub-section (10) of section 80-IB. This amendment will take effect from the 1st day of April, 2007 and will, accordingly, apply in relation to assessment year 2007-08 and subsequent years. [Clauses 3, 9 and 40]

**Rationalisation of provisions related to granting of recognition to a Provident Fund**  
Rule 4 of Part A of Schedule IV to the Income Tax Act, 1961 provides for the conditions which are required to be satisfied by a provident fund for receiving or retaining recognition under the Income-tax Act. Under the existing provisions contained in the said rule, a provident fund may receive and retain recognition if it satisfies certain conditions such as— (i) all employees shall be employed in India, or the employer has its principal place of business in India; (ii) the fund shall be vested in two or more trustees or in the Official Trustee under an irrevocable trust; (iii) the contribution of an employee in any year shall be a definite proportion of his salary for that year and shall be deducted by the employer from the employee's salary; (iv) the contribution of an employer to the individual account of an employee in any year shall not exceed the amount of contributions of the employee in that year, etc. With a view to provide legislative synergy between the Income-tax Act and the Employees' Provident Fund & Miscellaneous Provisions Act, 1952 to tackle the problems being faced by the small investors in the recognised provident funds, it is proposed to insert a new clause (ea) in the said rule so as to provide that the fund shall be of an establishment to whom the provisions of sub-section (3) or sub-section (4) of section 1 of the Employees' Provident Fund and Miscellaneous Provisions Act, 1952 are applicable and such establishment has been exempted under section 17 of the said Act from the operation of all or any of the provisions of any scheme referred to in that section. Further, Rule 3 of Part A of Schedule IV provides that the Chief Commissioner or the Commissioner of Income-tax may accord recognition to any provident fund which satisfies the conditions prescribed in Rule 4 and the rules made by the Board in this behalf. He may, at any time, withdraw such recognition if the fund fails to comply with the conditions prescribed in the said rule. Since a synergy between the provisions of the Income Tax Act and the Employees' Provident Fund and Miscellaneous Provisions Act is to be established, it is proposed to insert a proviso in sub-rule (1) of Rule 3 so as to provide that in a case where recognition has been accorded to any provident fund on or before 31st March, 2006 and such provident fund does not satisfy the conditions set out in clause (ea) of Rule 4, and any other conditions which the Board may by rules specify in this behalf, the recognition to such fund shall be withdrawn, if such fund does not satisfy such conditions on or before 31st March, 2007. These amendments will take effect from 1st April, 2007 and will, accordingly, apply in relation to the assessment year 2007-2008 and subsequent years. [Clause 36]

**Provisions relating to double taxation relief etc.**  
It is proposed to insert a new section 90A to provide that any specified association in India may enter into an agreement with any specified association in a specified territory outside India and the Central Government may, by notification in the Official Gazette, make the necessary provisions for adopting and implementing such agreement for grant of double taxation relief, for avoidance of double taxation, for exchange of information for the prevention of evasion or avoidance of income tax, or for any other purpose. The provisions of the Income-tax Act shall apply to the extent they are more beneficial to that assessee. It is also proposed to provide that any term used but not defined in the Income Tax Act or in the said agreement shall have the same meaning as assigned to it in the said agreement, unless the context requires otherwise and it is not inconsistent with the provisions of the Income Tax Act or the said agreement. For this purpose, the 'specified association' and 'specified territory' will be notified by the Central Government. A consequential amendment is also proposed to be made to the definition of 'rate or rates in force' or 'rates in force' under section 2(37A) so as to provide a reference to the proposed new section. These amendments will take effect from 1st June, 2006. [Clauses 3 and 20]

**Reference to the definition of 'derivatives'**  
Under the existing provisions of clause (5) of section 43, an eligible transaction in respect of trading in derivatives carried out in a recognised stock exchange is not deemed to be a speculative transaction. The definition of derivatives was earlier referred to in clause (aa) of section 2 of the Securities Contracts (Regulation) Act, 1956. Through an amendment made in January, 2005 to the Securities Contracts (Regulation) Act, 1956, the said clause (aa) has been re-lettered as clause (ac). Accordingly, the reference to the definition of the term 'derivative' has been re-lettered in clause (5) in section 43. This amendment will take effect retrospectively from 1st April, 2006. [Clause 11]

### FRINGE BENEFIT TAX

**Rationalising the provisions of Fringe Benefit Tax**  
Section 115 WB provides a definition of the term 'fringe benefits'. It, inter-alia, means any privilege, service, facility or amenity, directly or indirectly, provided by an employer to his employees, any contribution by the employer to an approved superannuation fund for the employees, etc. Sub-section (2) of the said section provides that the fringe benefits shall be deemed to have been provided by the employer to his employees, if the employer has in the course of his business or profession, incurred any expense on or made any payment for the purposes of entertainment, hospitality, conference, sales promotion including publicity, etc. Proviso to clause (D) of sub-section (2) of section 115WB excludes certain expenditure on advertisement from sales promotion including publicity. To expand the domain of such exceptions to provide relief to employers, it is proposed to insert a new clause in the proviso to clause (D) of sub-section (2) of the said section 115WB so as to provide that the expenditure on distribution of free samples of medicines or of medical equipment, to doctors and payment to any person of repute for promoting the sale of goods or services of the business of employers, shall not be included in 'sales promotion including publicity' for valuation of fringe benefits. Sub-section (3) of section 115WB provides that for the purposes of sub-section (1) of the said section, the privilege, service, facility or amenity does not include requisites in respect of which tax is paid or payable by the employee. To specifically exempt expenditure of employers, incurred on the to and fro journeys from residence to office of their employees, from the provisions of this tax, it is also proposed to amend sub-section (3) of section 115WB so to provide that any benefit or amenity in the nature of free or subsidised transport or any such allowance provided by the employer to his employees for journeys by the employees from their residence to the place of work or such place of work to the place of residence shall not form part of fringe benefits. Under the existing provisions contained in section 115WB, the value of fringe benefits is to be determined in terms of percentage of certain expenses specified in section 115WB, which shall be taken as fringe benefits for the purpose of levy of fringe benefit tax. Clause (b) of sub-section (1) of section 115WC provides that the actual amount of contribution by the employer to an approved superannuation fund for employees shall be the value of fringe benefits. It is proposed to amend the said clause (b) so as to provide that contribution by an employer to an approved superannuation fund to the extent it does not exceed rupees one lakh per employee in respect of whom contribution is made, shall not be liable to fringe benefit tax. For example, consider an employer who has three employees: A, B and C and he makes contribution to their account in the approved superannuation fund in the following manner—

Employee	Contribution to approved superannuation fund by the employer
A	Rs. 50,000
B	Rs. 90,000
C	Rs. 2,00,000

In the case of employees A and B, the value of fringe benefits shall be taken to be nil since contributions by the employer in respect of these employees does not exceed Rs. 1,00,000 in each case. However, in the case of employee C the value of fringe benefit shall be Rs. 1,00,000 (Rs. 2,00,000 - 1,00,000) for the purposes of levy of fringe benefit tax. Under the existing provisions contained in clause (c) of sub-section (1) of section 115WC, it is provided that twenty percent of the expenses referred to in clauses (A) to (K) of sub-section (2) of section 115WB, which includes expenses incurred on conveyance, tour and travel (including foreign travel), shall be the value of fringe benefits. It is proposed to insert a new clause (e) in sub-section (1) of section 115WC so as to provide that five percent of the expenses incurred on tour and travel (including foreign travel) shall be taken for determining the value of fringe benefits. However, twenty percent of the expenses incurred for the purposes of conveyance shall be continued to be taken for the purposes of valuation of fringe benefits. Sub-section (2) of the said section 115WC provides for lower rate for valuation of fringe benefits in the case of certain expenses referred to in sub-section (2) of section 115WB. It is proposed to insert new clauses (aa), (ab), (da) and (db) in sub-section (2) of section 115WC, so as to provide that in the case of an employer engaged in the business of carriage of passengers or goods by aircraft or ship, the value of fringe benefits for the purposes referred to in clauses (B) and (G) of sub-section (2) of section 115WB relating to hospitality and use of hotel, lodging and boarding respectively shall be "five per cent." instead of "twenty per cent." referred to in clause (c) of sub-section (1). These amendments will take effect from 1st April, 2007 and will, accordingly, apply in relation to the assessment year 2007-2008 and subsequent years. [Clauses 28 and 29]

### SECURITIES TRANSACTION TAX

**Section 98 of the Finance (No.2) Act, 2004 relating to charge of securities transaction tax**  
The existing provisions of section 98 of the Finance (No.2) Act, provide that the Securities Transaction Tax shall be charged in respect of the following transactions at the rates as under— (i) @ 0.1% on the value of transactions of delivery based purchase of an equity share in a company or a unit of an equity oriented fund, entered in a recognised stock exchange, to be paid by the buyer. (ii) @ 0.1% on the value of transactions of delivery based sale of an equity share in a company or a unit of an equity oriented fund, entered in a recognised stock exchange, to be paid by the seller. (iii) @ 0.02% on the value of transactions of non-delivery based sale of an equity share in a company or a unit of an equity oriented fund, entered in a recognised stock exchange to be paid by the seller. (iv) @ 0.0133% on the value of transactions of derivatives being option or future, entered in a recognised stock exchange. (v) @ 0.2% on the value of transactions of sale of units of an equity-oriented fund to the mutual fund. [Clause 76]

With a view to raise additional resources and also plug the leakage of tax revenue, it is proposed to enhance these rates. The proposed new rates shall be as under— (i) @ 0.125% on the value of transactions of delivery based purchase of an equity share in a company or a unit of an equity oriented fund, entered in a recognised stock exchange, to be paid by the buyer. (ii) @ 0.125% on the value of transactions of delivery based sale of an equity share in a company or a unit of an equity oriented fund, entered in a recognised stock exchange, to be paid by the seller. (iii) @ 0.025% on the value of transactions of non-delivery based sale of an equity share in a company or a unit of an equity oriented fund, entered in a recognised stock exchange, to be paid by the seller. (iv) @ 0.017% on the value of transactions of derivatives being option or future, entered in a recognised stock exchange. (v) @ 0.25% on the value of transactions of sale of units of an equity-oriented fund to the mutual fund. This amendment will take effect from 1st June, 2006. [Clause 76]

### CUSTOMS

**Note:** (a) "Customs Duty" means the customs duty levied under the Customs Act, 1962. (b) "CVD" means the Additional Duty of Customs levied under section 3 of the Customs Tariff Act, 1975.

Changes come into effect immediately unless otherwise specified.

Major proposals about the customs duties are the following:

- A. ADDITIONAL DUTY OF CUSTOMS:**  
In the 2005 budget, power was taken to levy a special additional duty of customs @ 4% under section 3(5) of Customs Tariff Act, 1975 on all goods imported into India. This levy is to partly compensate for the internal taxes like VAT, sales tax, central sales tax, which apply to sale, purchase or transportation of goods in India. This 4% levy was imposed on ITA (Information Technology Agreement) bound items and on specified inputs/raw materials used for manufacture of electronics/ information technology items. This additional duty of customs of 4% has now been extended to cover all imported goods (with some exceptions). This will apply to all agricultural as well as non-agricultural imports. Jewellery will, however, attract a lower rate of additional duty of customs at 1%. The following imports have been exempted from this special additional duty of customs (this is not an exhaustive list):  
1) Goods which are fully exempt from VAT;  
2) Goods which are exempted both from basic and CV duty;  
3) Petroleum crude, kerosene for PDS, LPG for domestic supply, petrol, diesel, coal, coke and petroleum gases and fuel of Chapter 27;  
4) Goods for Export promotion schemes under which imports are allowed at zero duty.  
5) Passenger baggage.  
6) Fertilizers and inputs for fertilizers;  
7) Newsprint, glazed newsprint, wood pulp for newsprint;  
8) DTA clearances of EOUs/EHTP/STP/SEZ units, provided such goods are not exempted from sales tax/VAT;  
9) Gold concentrate;  
10) Gold, silver, rough and cut diamonds, precious metals, precious and semi-precious stones (Chapter 71);  
11) Imports by EOUs and units in the EHTPs/STPs or SEZs;  
12) Ships for breaking up;  
13) Non-mega power projects, transmission and distribution projects, and high voltage transmission equipments.
- B. PEAK RATE OF AD VALOREM CUSTOMS DUTY REDUCED:**  
1) Peak rate of customs duty on non-agricultural products has been reduced from 15% to 12.5% with a few exceptions.  
2) Ad valorem component of customs duty on textiles fabrics and garments has been reduced from 15% to 12.5%. There is, however, no change in specific component of customs duty.
- C. METALS AND THEIR INPUTS:**  
(i) Customs duty has been reduced from 10% to 7.5% on primary and semi-finished forms of following metals—  
(a) Alloy steel.  
(b) Aluminium.  
(c) Copper.  
(d) Zinc.  
(e) Ashes and residues of copper and zinc.  
(f) Tin.  
(g) Base metals of Chapter 81 (such as, Tungsten, Magnesium, Cobalt, Titanium, etc.)  
(h) Calcined alumina  
(ii) Customs duty has been reduced from 5% to 2% on mineral ores and concentrates.  
(iii) Customs duty has been reduced from 10% to 7.5% on ferro alloys.  
(iv) Customs duty of 5% has been imposed on iron and steel melting scrap.  
(v) Concessional rate of 5% customs duty on nickel and articles of nickel has been restricted to goods falling under Chapter 75.
- D. MINERALS:**  
Customs duty has been reduced from 15% to 5% on mineral products of Chapter 25, except for cement, marble, granite and asbestos.
- E. REFRACTORIES AND INPUTS FOR REFRACTORIES:**  
Customs duty has been reduced on:  
(a) Refractories from 10% to 7.5%; and  
(b) Raw materials for refractories namely, natural graphite powder, aluminous cement, boron carbide, reactive alumina, silicon metal (99% purity), micro/fused silica, brown fused alumina, fused zirconia, silicon carbide, sodium hexametaphosphate, sintered/tabular alumina and fused silica from 10% to 7.5%.
- F. CHEMICALS AND PETROCHEMICALS:**  
1) Customs duty on basic inorganic chemicals such as halogens, sulphur, carbon, hydrogen, falling under headings 2801 to 2805, has been reduced from 15% to 10%.  
2) Customs duty on organic chemicals falling under headings 2901 to 2904, with the exception of Chloromethanes and Trichloroethylene, has been reduced from 10% to 5%.  
3) Customs duty on methanol has been reduced from 15% to 10%.  
4) Customs duty on Styrene, Ethylene Dichloride and Vinyl Chloride Monomer has been reduced from 5% to 2%.  
5) Customs duty has been reduced from 10% to 7.5% on catalysts of heading 3815.  
6) Customs duty has been reduced on Ethyl Vinyl Acetate from 10% to 5%.  
7) Customs duty has been reduced from 10% to 5% on Polymers of Ethylene (LDPE, LLDPE, HDPE, LMDPE), Polymers and copolymers of Propylene, Polymers and copolymers of Styrene and Polymers of Vinyl Chloride;  
8) Customs duty on naphtha for manufacture of specified polymers has been reduced from 5% to Nil.
- G. AGRICULTURE**  
1) Customs duty has been increased from 30% to 60% on honey.  
2) Customs duty has been increased on vanaspathi, 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 1517 or 1518, from 30% to 80%.  
3) Concessional rate of 5% customs duty + Nil CVD, presently available to specified plantation machinery upto 30.4.2006, has been extended by one more year.  
4) Customs duty has been reduced on Atlantic salmon from 30% to 10%.
- H. TEXTILES:**  
1) Customs duty on man made fibres, filaments yarns and spun yarns has been reduced from 15% to 10%.  
2) Customs duty on DMT, PTA, MEG and Caprolactum has been reduced from 15% to 10%.  
3) Customs duty on Paraxylene has been reduced from 5% to 2%.  
4) Customs duty on specified textile machinery, and parts for manufacture of such machinery, has been reduced from 15% to 10%.
- I. INFORMATION TECHNOLOGY:**  
1) Customs duty on Set Top Boxes, whether or not covered under ITA (Information Technology Agreement), has been unified at Nil customs duty by way of excise duty exemption.  
2) 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.  
3) Customs duty on MP3 Players and MPEG4 Players has been reduced from 15% to 5%.
- J. PETROLEUM:**  
1) Customs duty on naphtha has been reduced from 10% to 5%.  
2) Customs duty on Petroleum Coke has been reduced from 10% to 5%.  
3) Customs duty on natural gas including propane and butanes, has been unified at 5%.
- K. HEALTH**  
1) Customs duty on 14 specified anti-cancer and 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.  
2) Customs duty has been reduced to 5% on 4 specified drugs and bulk drugs for their manufacture. These drugs will be exempt from CV duty also by way of excise duty exemption.  
3) Customs duty has been reduced to 5% on 2 specified diagnostic kits and 1 equipment. These kits/equipment will be exempt from CV duty also by way of excise duty exemption.
- L. PROJECT IMPORTS**  
Pipeline projects for transportation of crude oil, petroleum products and natural gas have been notified as project imports under Heading 9801.
- M. MISCELLANEOUS:**  
1) Customs duty has been reduced on:  
(a) Non-edible grade oils having Free Fatty Acid content of 20% or above, used for manufacture of soaps, industrial fatty acids and fatty alcohols, from 15% to 12.5%.  
(b) duty plus 16% CV duty plus 4% special additional duty of customs;  
(c) Butyl rubber from 15% to 10%.  
(d) Crude glycerine from 30% to 12.5%.  
(e) 2-Vinyl pyridine from 15% to 10%.  
(f) Metallurgical grade silicon from 15% to 10%.  
(g) Borax/boric acid from 15% to 10%.  
(h) Cullet (broken glass) from 15% to 5%.  
(i) Parts of pens under heading 9608 from 15% to 5%.  
(j) Parts of hearing aids from 5% to Nil.  
(k) Potassium chloride from 15% to 10%.  
(l) Bisphenol-A and Epichlorohydrin, for the manufacture of Epoxy Resin, from 10% to 5%.  
(m) Phenol/acetone, for manufacture of bisphenol-A, from 15% to 5%.  
(n) Packaging machinery, falling under 8422 30 00 and 8422 40 00, from 15% to 5%.  
2) A unified rate of 5% customs duty has been prescribed for glass frit and all other glass under tariff item 3207 40 00.
- N. WITHDRAWAL OF EXEMPTIONS**  
Customs duty exemptions/concessions have been withdrawn on following items:  
1) Subbed polyester base, for the manufacture of medical or industrial X-ray films and graphic art films.  
2) Saddle tree.  
3) Parts of outboard motors imported by specified agencies.  
4) Spare parts for maintenance of textile machinery.  
5) Video cassettes and video tapes imported by Television Centre of All India Radio, or by M/s Electronic Trade and Technology Development Corporation Ltd or by others.  
6) Food preparations containing flour, meal, starch, etc. in a specified proportion meant for infant use and put up for retail sale.  
7) Food products (excluding alcoholic preparations) imported by hotels/tourism industry in terms of licenses issued under 1997-2002 Exim Policy.  
8) Plant, machinery, equipment imported for setting up of Currency Note/Bank Note Press at Salbony, Mysore, Nasik and Dewas.  
9) Exemption from CVD on gold concentrate. This exemption will continue by way of excise duty exemption.  
10) Specified goods for manufacture of capital goods for setting up of a unit with an investment of Rs 5 crore or more.

### CENTRAL EXCISE

**Note:** (a) SED means Special Excise Duty. (b) AED (GS) means Additional Excise Duty (Goods of Special Importance) Act. Changes come into effect immediately unless otherwise specified.

Major proposals about central excise duty are the following:

- A. RELIEF MEASURES:**  
1) Excise duty has been reduced from 24% to 16% on aerated waters.  
2) Excise duty has been reduced from 24% to 16% on:  
(a) Petrol cars with length not exceeding 4 metres and engine capacity not exceeding 1200 cc; and  
(b) Diesel cars with length not exceeding 4 metres and engine capacity not exceeding 1500 cc; and  
3) Excise duty has been reduced from 16% to 8% on:  
(a) Heat resistant latex rubber thread  
(b) LPG gas stoves of value exceeding Rs.2000 per unit  
(c) Compact Fluorescent Lamps  
(d) Footwear of retail sale price between Rs.250 and Rs.750 per pair

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## BUDGET 2006

### TRAVEL

Non-Economy Air Travel, Cruises

### TECHNOLOGY

Set Top Boxes, Computers, Software

### LUXURY GOODS

Cigarettes

### OTHERS

Real estate and property

### TECHNOLOGY DVD & MP3

Players

### HOUSEHOLD APPLIANCES

Kitchen Glassware, LPG Stoves

### FOOD & BEVERAGES

Processed Meat, Poultry & Fish

Products, Condensed Milk, Edible Oil,

Soft Drinks, Tea, Coffee, Biscuits,

Packed Foods, Packaged Milk

Products (ice-cream)

### FUEL

LPG Kerosene, Petrol, Diesel

### LUXURY GOODS

Clothes & Fabrics, Cosmetics

(imported make-up accessories &

perfumes), Toiletries (soap, shampoo

& shaving cream), Leather

Accessories (ties, belts, bags & shoes)

### AUTOMOBILES

Small Cars

### MEDICINES

Cancer, AIDS Drugs & Kits

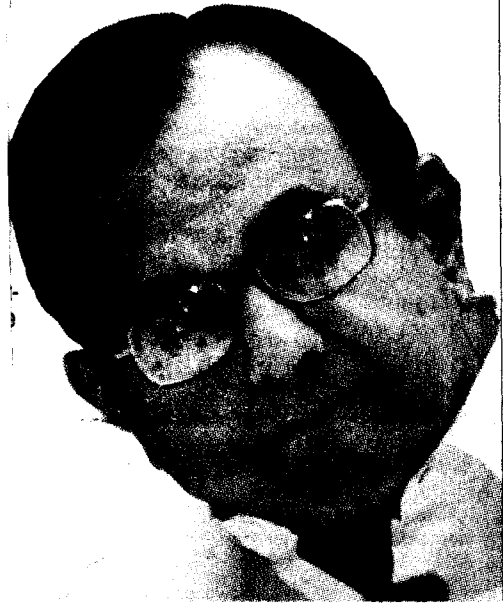
### OTHERS

Books, Writing, Printing & Packaged

Paper, Man-Made Fibre yarn,

Man-Made Filament Yarn,

Compact Fluorescent Lamps



NEW DELHI, Feb. 28. — Buoyed by the projected 8.1 per cent GDP growth for this fiscal, the Union Budget for 2006-2007 proposed no changes in personal or corporate income-tax, slashed customs and excise duties on several items and expanded the service-tax net to bring 16 more items in its ambit, including non-economy class international air travel and ATM operations. Small cars and aerated drinks have been made cheaper.

The Opposition was quick to describe the Budget as "pro-rich". Dismissing the criticism, Union finance minister Mr P Chidambaram said: "Economic growth, the best antidote available for poverty, was the aim of Budget 2006-07."

Poor or rich, smokers will have to pay more following a five per cent increase in excise duty on cigarettes, while condensed milk, ice-cream, meat, fish and poultry preparations and pasta will be cheaper following full exemption from it. The excise levy on ready-to-eat packaged foods and instant food mixes such as *dosa* and *idli*, energy efficient lamps and leather footwear priced between Rs 250 and Rs 750, has been brought down from 16 to eight per cent. The one-by-six scheme for mandatory filing of tax returns introduced by the NDA government six years ago stood abolished while an across-the-board 25 per cent increase in the Securities Transaction Tax as well as a roadmap for a Goods and Service Tax (GST), to be effective 1 April, 2010, were announced.

Mr Chidambaram recast the provisions relating to savings. Fixed deposits of more than five years in banks will now be brought under Section 80 C of the Income-Tax Act. He also removed the limit of Rs 10,000 in respect of pension fund contributions under Section 80 CCC, subject to an overall ceiling of Rs 1 lakh. In the interest of equity, the rate under minimum alternate tax for

## AT A GLANCE

- No change in personal income-tax rates
- Service tax goes up to 12% from 10%, more services brought under its ambit
- Investments in fixed deposits for a term not less than five years to be included in Section 80C of the Income Tax Act
- Fringe Benefit Tax rationalised
- One-by-six scheme for mandatory filing of tax returns abolished
- Across-the-board 25% increase in Securities Transaction Tax
- Peak customs duty reduced to 12.5%
- Fiscal deficit for 2006-07 pegged at 3.8%
- Revenue deficit down to 2.1%
- Direct tax proposals to yield Rs 4,000 cr
- Indirect taxes to bring Rs 2,000 cr
- Defence allocation goes up by Rs 6,000 cr
- Budgetary support to Bharat Nirman programme up by 54%
- Rs 4,813 crore for mid-day meal scheme
- Rs 12,041 crore allocated for North-east
- Minimum Alternate Tax up to 10% on book profits
- Major thrust to agriculture sector

Text of FM's Speech: 6 & 7  
Full Coverage: 10, 12 & 13  
Experts' Comments: 11

corporates has been raised from 7.5 per cent to 10 per cent.

The controversial Fringe Benefit Tax has been modified but not removed as demanded by industry captains. Mr Chidambaram ruled out withdrawal of the Banking Cash Transaction Tax, introduced last fiscal, for the tax trails it had helped establish. The BCTT would continue until the Annual Information Report (AIR) system had been able to capture all significant financial transactions. Financial pundits, however, read the forthcoming state elections between the lines. There were no reform announcements reflective of the persistent appeasement of the UPA's Left allies, they felt.

The UPA government's third Budget put a major thrust on taking

forward the agenda of the National Common Minimum Programme with its emphasis on the social sectors. The Bharat Nirman programme got a 54 per cent hike in its budgetary support. Further, Rs 12,041 crore has been allocated for the North-east and Rs 4,813 crore for the mid-day meal scheme. The total allocation for rural employment, including under the Employment Guarantee Act, has been fixed at Rs 14,300 crore. Short-term lending at a concessional interest of seven per cent was announced for *khariif* and *rabi* crop growers. Describing the Budget as "outstanding", Prime Minister Dr Manmohan Singh said it had the potential of ensuring a 8-10 per cent growth. It also laid emphasis on the farming community, rural health, education and infrastructure development, he said. "It is a pro-common man budget and will help the country to move towards a higher growth path."

Later, Mr Chidambaram said the Budget 2006-07 was a powerful signal to investors that "we are pursuing a fiscal policy to ensure that there is monetary stability". Noting that it was imperative to remain true to the fiscal responsibility and business management (FRBM), he said: "We must pay attention to sound fiscal policies and to sound monetary policies."

The Defence allocation has been increased by Rs 6,000 crore to Rs 89,000 crore with capital outlay raised to Rs 37,000 crore. Mr Chidambaram pegged the fiscal deficit for 2006-07 at 3.8 per cent of the GDP, or Rs 1,48,686 crore, and the revenue deficit at 2.1 per cent, or Rs 84,727 crore. The gross budgetary support for Plan expenditure was raised to Rs 1,72,728 crore, an increase of 20.4 per cent. Out of this, the Central Plan will receive a support of Rs 1,31,285 crore. He estimated the total expenditure for the coming year at Rs 5,63,991 crore. The total revenue receipts have been placed at Rs 4,03,465 crore and revenue expenditure at Rs 4,88,192 crore.

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THE STATESMAN





# BUDGET 2006: PLAYING IT SAFE

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J. B. Co. Affair



## DIRECT TAXES

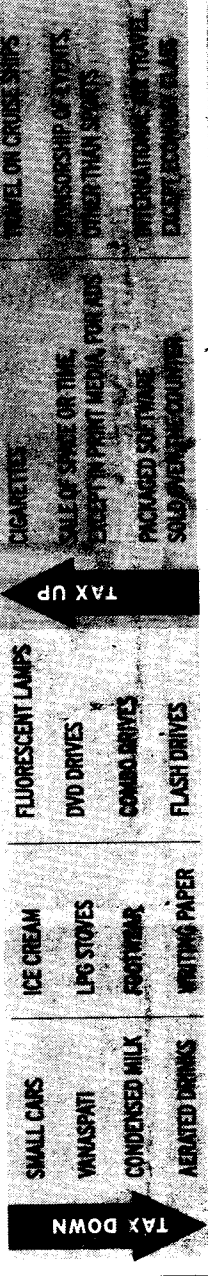
- No new taxes on income
- No change in personal income tax rates
- One-by-six scheme for filing IT returns abolished
- Fixed deposits with at least five-year maturity will get tax exemption for savings under Section 80 (C)
- Cooperative and rural development banks to be exempted from taxes under Section 80(B)
- Exemption limit of Rs. 10,000 for contribution to pension funds goes within overall ceiling of Rs. 1 lakh
- Anonymous donations to charity organisations to be taxed
- Minimum alternate tax on corporates raised from 7.5 per cent to 10 per cent
- Constituency allowances of MLAs to be treated on par with those of MPs for income tax
- More transactions to come under PAN
- Banking cash transaction tax to stay
- Fringe Benefit Tax modified
- Benefits of Section 54 EC restricted to NHAI and REC

## INDIRECT TAXES

- No excise duty on ice cream, condensed milk, meat, fish and poultry preparations
- Excise on small cars and aerated soft drinks cut
- Footwear in the Rs. 250-750 price range get relief
- Concessional excise extended to high-cost LPG stoves
- Excise on some printing and writing paper reduced
- Excise on cigarettes up
- Computers, set top boxes under excise net
- Service tax rate up, coverage extended to more areas
- Excise on processed ready-to-eat foods cut to 8 per cent
- Packaged software under duty net
- Customs duty on select AIDS and cancer drugs reduced

## PROPOSALS

- Outlay for mid-day meal scheme up
- Incentives for education of girls from SCs, STs, OBCs and minorities
- 5 lakh classrooms to be built; 1.5 lakh teachers to be appointed
- Goods and services tax to be in place by April 2010
- Expert panel on gems and jewellery industry
- Relief to farmers taking crop loans
- 180 items to be dereserved
- Food processing to be priority sector for bank credit
- Special purpose tea fund set up
- National Minorities Development Finance Corporation to be strengthened
- National e-governance plan soon
- LPG to be made "declared good"
- Investor protection fund under SEBI to be set up
- 1,000 km of access-controlled expressways to be developed



## OPINION



*Outstanding budget, a combination of the twin imperatives of social justice and economic growth*

— Manmohan Singh



*The budget provisions would lead to spiralling prices, and there is nothing to cheer about for farmers*

— A.B. Vajpayee



*It has failed to tackle adequately the problems of peasants and unemployment*

— P. N. Prakash Karat



*Lacklustre, and totally directionless, rebuses from earlier budgets*

— Jayalalithaa

GRAPHIC: SURJIT



The capacity of Central Mines Planning and Development Institute Limited (CMPDIL) to drill in order to prove reserves is now only 200,000 metres per annum, and this will be expanded substantially.

**Petroleum**  
80. Energy security is high on the Government's agenda. In five rounds of the New Exploration Licensing Policy (NELP), 110 production sharing contracts have been awarded. Ministry of Petroleum and Natural Gas has now made its biggest offer under NELP VI. 55 blocks and an area of 355,000 sq kms, which is thrice as large as the previous round, have been offered. Besides investment in the upstream and downstream segments, we are encouraging investment in refining, pipelines and green field projects. In the refinery sector alone, an investment of Rs.22,000 crore is expected in the next few years.

**Road Transport**  
81. The National Highways Development Programme (NHDP) continues to make impressive progress. The highest ever number and value of contracts were awarded in calendar 2005. I propose to enhance the Budget support for NHDP from Rs.9,320 crore to Rs.9,945 crore in 2006-07.

82. A special accelerated road development programme for the North Eastern region at an estimated cost of Rs.4,819 crore has been approved. For 2006-07, I propose to provide a sum of Rs.550 crore for this programme.

83. Government has also decided to develop 1,000 kms of access-controlled Expressways. These will be on new alignment and built on the Design, Build, Finance and Operate (DBFO) model. The sections that have been identified are Vadodra-Mumbai, Delhi-Chandigarh, Delhi-Jaipur, Delhi-Meerut, Delhi-Agra, Bangalore-Chennai and Kolkata-Dharwad. The concessionaires will be selected through an international competitive bidding process.

84. National Highway Authority of India (NHAI) will be restructured and made more effective. It will be made into a multi-disciplinary body with the capacity to handle a large number of PPP projects. New skill areas in planning, and quality assurance, standardization, arbitration, road-safety and R&D will be created.

**Maritime Development**  
85. Honourable Members are aware that the National Maritime Development Programme (NMDP) has been approved by the Government. The port sector alone will require Rs.55,804 crore. Work is in progress in 101 projects covering, inland waterways, shipping and ports which include deepening of channels in Kandla, JMT and Paradip. I propose to increase the Plan allocation for the Department of Shipping by 37 per cent to Rs.735 crore.

86. A deep draft port is required in the eastern part of the country. I am happy to announce that it is proposed to carry out a detailed study to identify a suitable location for a new deep draft port in West Bengal. The existing National Institute of Port Management, Chennai, has been renamed as the National Maritime Academy, and it is proposed to upgrade it into a Central University under an Act of Parliament. The University will have regional campuses at Mumbai, Kolkata and Visakhapatnam.

87. The India Infrastructure Finance Company Limited (IIFCL) has been incorporated, and the first proposal for funds has been received. Several proposals have been received for viability gap funding for PPP projects. In-principle approval has been granted to three road projects in Gujarat and a final decision is likely to be taken before March 31, 2007.

#### X FINANCIAL SECTOR

**Banking, Insurance and Pensions**  
88. As part of the reforms in the banking sector introduced in 1993-94, capital was infused in the banks by issue of special securities. To date, Government has injected Rs.16,809 crore into nationalised banks. Adding the perpetual securities issued earlier, the total net capital support stands at Rs.22,808 crore. Thanks to the capital support, a sound banking sector meeting international norms has emerged. We have reached a stage when we can wind up the special arrangements between Government and the banks. Accordingly, after consulting the RBI, I propose to unwind the special securities through conversion of these non-tradable special securities into tradable, SLR Government of India dated securities. This will facilitate increased access of the banks to additional resources for lending to the productive sectors in the light of the increasing credit needs of the economy.

89. Honourable Members are aware that the K.P. Narasimhan Committee was appointed to recommend a comprehensive law on insurance. The report of the committee has been received, and is being examined by the Insurance Regulatory and Development Authority and the Government. I intend to introduce a comprehensive Bill on insurance in 2006-07.

90. Important Bills to amend the banking laws and for setting up the Pension Fund Regulatory and Development Authority are before Parliament. The Standing Committee on Finance has recommended these Bills. I would urge Honourable Members to cooperate with the Government and pass these Bills.

**Capital Market**  
91. In recent months, the capital market has attracted a great deal of attention. The measures taken in the last year-and-a-half have deepened, broadened and strengthened the market. It is necessary to take more measures. Hence, I propose to

- Increase the limit on FII investment in Government securities from \$ 1.75 billion to \$ 2 billion and the limit on FII investment in corporate debt from \$ 0.5 billion to \$ 1.5 billion;

- To raise the ceiling on aggregate investment by mutual funds in overseas instruments from \$ 1 billion to \$ 2 billion and to remove the requirement of 10 per cent reciprocal share holding;

- To allow a limited number of qualified Indian mutual funds to invest, cumulatively up to \$ 1 billion, in overseas exchange traded funds; and
- To set up an investor protection fund under the aegis of SEBI, funded by fines and penalties recovered by SEBI. This will bolster confidence among retail investors who should be the key drivers of the capital market.

92. RBI had introduced the anonymous electronic order matching trading module called NDS-OM on its Negotiated Dealing System. In the first phase, RBI-regulated entities, banks and primary dealers were allowed to trade on the system. The system has now been extended to all insurance entities. In view of the encouraging response of market participants and to further deepen the Government securities market, it is proposed to extend access to qualified mutual funds, provident funds and pension funds.

93. In my Budget speech last year, I had appointed a high-level expert committee on corporate bonds. The committee has submitted its report and Government has accepted the recommendations. We shall now take steps to create a single, unified exchange-traded market for corporate bonds.

**Research and Development**  
94. Our outstanding human resources have the capacity to make India a Knowledge Society. Government accords high importance to research and development. The National Agricultural Innovation Project for research at the frontiers of agricultural science is expected to receive multilateral assistance shortly, and will be launched in July, 2006.

95. The National S&T Entrepreneurship Board has set up a number of Technology Business Incubators with seed funding from the Technology Development Board. Government will be happy to provide enabling concessions to the incubate-entrepreneurs.

**Institutions of Excellence**  
96. Last year, I made a beginning with an unprecedented grant of Rs.100 crore to the Indian Institute of Science (IISc), Bangalore to help develop it into a world-class institution. I am happy to report that the IISc has obtained approval for an ambitious programme of modernization, and is implementing the same. This year, I must recognize another historical event. Three great Universities have entered their 150th year. These are the University of Calcutta, the University of Mumbai and the University of Madras. I propose to mark the beginning of the 150th year celebrations with a grant of Rs.50 crore to each University for a specified research department or a research programme in that University. On the conclusion of the year, I intend to make another grant of Rs.50 crore to each of them.

97. I propose to make the special grant of Rs.100 crore for an institution of excellence to a distinguished institution, the Punjab Agricultural University, Ludhiana, in acknowledgement of its pioneering contribution to the green revolution.

98. If agriculture is an ancient Indian skill, biotechnology is the new frontier that India will conquer. In order to foster research and development in biotechnology, the Ministry of Science and Technology has decided to accord the status of an autonomous National Institute to the Rajiv Gandhi Centre for Biotechnology, Trivandrum, Kerala.

**Skills Development**  
99. Honourable Members will recall that Government has taken up a programme to upgrade 500 ITIs over five years. 100 ITIs are now covered with the help of the private sector. Assistance has been sought from multilateral agencies to cover the remaining 400 ITIs. I propose to allocate Rs.97 crore for this purpose in 2006-07. The Skills Development Initiative (SDI) announced last year has been taken up through a PPP scheme, and I propose to make an initial provision of Rs.10 crore.

**Backward Regions Grant Fund**  
100. Upon the establishment of a Backward Regions Grant Fund, a sum of Rs.1,156 crore has been disbursed so far in the current year to the districts identified as backward as well as under Rashtriya Sam Vikas Yojana (RSVY). The Fund is being placed under the administrative control of the Ministry of Panchayati Raj, and I propose to allocate Rs.5,000 crore in 2006-07.

**Jammu and Kashmir**  
101. Government will continue to provide special assistance to Jammu and Kashmir. The State Plan for 2006-07 has been fixed at Rs.2,300 crore. In addition, I propose to provide a sum of Rs.848 crore for the J&K Reconstruction Plan, including Rs.230 crore for the Baglihar Project. I also propose to provide special central Plan assistance of Rs.1,300 crore to enable the State to undertake reforms in the power sector.

**Defence Expenditure**  
102. Government has fulfilled the long-standing need of retired Armed Forces Personnel Below Officer Rank (PBOR) for better pensionary benefits. About 12 lakh PBOR have benefited to the tune of Rs.480 crore with effect from January 1, 2006, and I am sure the House will welcome this decision.

103. In view of the enhanced expenditure on modernisation of defence forces, I propose to increase the allocation for defence from Rs. 83,000 crore to Rs. 89,000 crore in 2006-07, and this will include Rs. 37,456 crore for capital expenditure.

**e-Governance**  
104. The National e-Governance Plan will be approved shortly, and 25 projects, in mission mode, will be launched in 2006-07. Among them is Project MCA-21 to enable companies to file returns electronically and a project for setting up common service centres and assigning unique ID to BPL families. It is Government's intention to bring a number of services online, in a web-based mode, including applications under the Right to Information Act, applications for house sites, ration cards, transfers of teachers, inclusion in the electoral roll, filing of police complaint, and issue of birth/death certificates and copies of land records.

**Celebrating History and Heritage**  
105. In 2007, we will celebrate the 150th anniversary of the First War of Indian Independence, an event that shaped the destiny of the nation. To ensure that the event is observed in a befitting manner, I propose to make a provision of Rs.10 crore for preparatory activities.

106. Two Gandhian institutions, the National Gandhi Museum, Rajghat and the Kasturba Gandhi National Memorial Fund, Indore deserve support. I intend to provide Rs.5 crore each to the corpus of these institutions in 2006-07.

107. I am happy to inform the House that Kuttiyattam, Vedic Chanting and Ramilla have been declared 'Oral and Intangible Heritage of Humanity' by the UNESCO. These old art forms and oral traditions need to be safeguarded. Pending drawing up a detailed scheme, I propose to make an initial provision of Rs.5 crore in 2006-07.

#### XII FISCAL CONSOLIDATION

**Twelfth Finance Commission**  
108. The recommendations of the Twelfth Finance Commission (TFC) are being implemented. Cumulatively, State loans amounting to Rs.103,710 crore have been consolidated so far. Under the new scheme of tax devolution, Rs.94,402 crore will be released as the States' share in the current year compared to Rs.78,595 crore in 2004-05. As regards grants-in-aid, the amounts granted in 2004-05 and 2005-06 (RE) are Rs.12,081 crore and Rs.25,134 crore respectively. In 2006-07, both the tax devolution and the grants will be substantially higher. The States have never been so well provided, as you will find from the Budget papers.

109. I may add that I have made appropriate provision in the Budget for debt consolidation and relief. I have also provided Rs.3,000 crore towards compensation for VAT losses, if any, in 2006-07.

#### Subsidies

110. The issue of subsidies is proving to be a divisive one, but I would urge Honourable Members that it is imperative that we make progress on this front if we are serious about targeting subsidies at the poor and the truly needy. My Ministry has held extensive discussions with stakeholders on three major subsidies, namely, food, fertilizer and petroleum. We have also sought the views of the general public. Working groups/committees have gone into the question of fertilizer and petroleum subsidies, the latest being the Dr. C. Rangarajan Committee. I would urge Members to help the Government evolve a consensus on the issue of subsidies.

**Gross Budgetary Support and Gross Fiscal Deficit**  
111. Mr. Speaker, Sir, please allow me to draw your attention to two path breaking developments on the fiscal front. Firstly, the strategy of enhanced revenue mobilization through reasonable rates, better compliance and widening of the tax base is yielding tangible results. For the Centre, the gross tax-GDP ratio, after rising from 9.2 per cent in 2003-04 to 9.8 per cent in 2004-05, has increased further to 10.5 per cent in 2005-06 (RE). Government estimates that, through better tax administration, it will increase to 11.2 per cent in 2006-07 (BE).

112. Secondly, the year 2004-05, for which the actuals are available, has proved to be a turning point. After 20 years, the Gross Fiscal Deficit is less than the Gross Budgetary Support for Plan in that year. What does this mean? This means that Government is not financing the Plan entirely through borrowing. Whether this trend continued in 2005-06 will be known only after the actuals are available. However, in the BE for 2006-07, I have been able to confine the gross fiscal deficit to a number much smaller than the gross budgetary support for the Plan.

113. Last year, reluctantly, I pressed the 'pause' button on fiscal correction. I had estimated, the revenue deficit for 2005-06 at 2.7 per cent and the fiscal deficit at 4.3 per cent. I am happy to report that I have been proved wrong. We have improved upon both measures. According to revised estimates, the revenue deficit for the current year will be only 2.6 per cent and the fiscal deficit will be only 4.1 per cent.

#### XIII BUDGET ESTIMATES FOR 2006-07

114. I turn to the Budget Estimates for the next fiscal.

**Plan Expenditure**  
115. Plan expenditure for 2006-07 is estimated at Rs.172,728 crore, up by 20.4 per cent. As a proportion of total expenditure, Plan expenditure has increased from 26.6 per cent in 2004-05 to 28.3 per cent in 2005-06 (RE) and further to 30.6 per cent in 2006-07 (BE). This points to the improvement in the quality of Government expenditure.

**Non-Plan Expenditure**  
116. Non-Plan expenditure in 2006-07 is estimated to be Rs.391,263 crore. The increase of 5.5 per cent over non-plan expenditure in 2005-06 (BE) is due to normal growth and is one the smallest in recent years.

**Revenue Deficit and Fiscal Deficit**  
117. Mr. Speaker, Sir, in the Budget Estimates for 2006-07, the total expenditure is estimated at Rs.563,991 crore. I estimate total revenue receipts of the Central Government at Rs.403,465 crore and the revenue expenditure at Rs.488,192 crore. Consequently, the revenue deficit is estimated at Rs.84,727 crore which is 2.1 per cent of the GDP. The fiscal deficit is estimated at Rs.148,886 crore, which is 3.8 per cent of the GDP. I believe that I have redeemed my promise that the process of fiscal correction will be resumed in 2006-07.

#### PART-B

#### XIV TAX PROPOSALS

118. Mr. Speaker, I shall now present my tax proposals. In the UPA Government's first Budget, and more so in the second, I had attempted significant tax reforms. The results are encouraging. In 2004-05, gross tax revenues (provisional actuals) increased by 19.8 per cent over the actuals of the previous year, and according to Revised Estimates, in 2005-06, they are expected to increase by 21.4 per cent over the provisional actuals of the previous year. These figures confirm our belief that we should keep our tax rates moderate and stable.

**Indirect Taxes**  
119. I shall begin with my proposals on indirect taxes. Firstly, customs duties.

120. In line with the Government's policy of reducing customs duties, I propose to reduce the peak rate for non-agricultural products from 15 per cent to 12.5 per cent. I believe that we are now only a short distance away from East Asian rates.

121. As the peak rate comes down, there is a need to reduce the duty on raw materials and intermediates.  
122. The duty on primary steel is at 5 per cent. I propose to reduce the duty on alloy steel and primary and secondary non-ferrous metals from 10 per cent to 7.5 per cent. This will also be the rate of duty for ferro alloys.

123. In 2004-05, in view of the high international prices of steel, I had reduced the import duty on steel melting scrap to zero. With prices of steel coming down, I propose to restore the duty to 5 per cent and bring it on par with primary steel.

124. The duty on mineral products is now 15 per cent. I propose to reduce it to 5 per cent, with a few exceptions.

125. I also propose to reduce the duty on ores and concentrates from 5 per cent to 2 per cent.

126. Refractories attract a duty of 10 per cent. A number of materials required for manufacture of refractories are also at 10 per cent or higher rates. I propose to reduce these duties to 7.5 per cent.

127. Basic inorganic chemicals are crucial raw materials. I propose to reduce the duty from 15 per cent to 10 per cent. On basic cyclic and acyclic hydrocarbons and their derivatives, I propose to bring down the rate to 5 per cent. I also propose to reduce the duty on catalysts from 10 per cent to 7.5 per cent.

128. Plastics are important raw materials. Hence, I propose to reduce the duty on major bulk plastics like PVC, LDPE and PP from 10 per cent to 5 per cent. Simultaneously, the duty on naphtha for plastics will be reduced to nil.

129. I propose to reduce the duty on styrene, EDC and VCM which are raw materials for plastics to 2 per cent.  
130. I propose to give some concessions to vital drugs. I propose to reduce the customs duty on 10 anti-AIDS and 14 anti-cancer drugs to 5 per cent. I also propose to reduce the duty on certain life saving drugs, kits and equipment from 15 per cent to 5 per cent. These drugs will also be exempt from excise duty and countervailing duty (CVD).

131. Packaging machines serve a wide variety of industries, including food processing. I propose to reduce the duty on packaging machines from 15 per

cent to 5 per cent.

132. I propose to extend the concessional project rate of 10 per cent to pipeline projects for transportation of natural gas, crude petroleum and petroleum products.

133. Honourable Members would recall that last year I had taken the power to impose a CVD on all imports to compensate for State level taxes. This levy was applied only to imports of ITA bound items and their inputs, except IT software. After the introduction of VAT in most States, I have received representations from trade and industry that this levy should be extended to all imports. The argument is persuasive, and I propose to impose a CVD of 4 per cent on all imports with a few exceptions. Full credit of this duty will be allowed to manufacturers of excisable goods.

134. In order to protect the domestic vanaspati industry, I propose to increase the customs duty on vanaspati to 80 per cent, the rate applicable to crude palm oil.  
135. Export oriented units (EOUs) are allowed to clear their goods to the Domestic Tariff Area (DTA) at a concessional rate. With declining import duties, DTA units and EOUs should have a level playing field as regards excise duty or CVD. Hence, I propose to adjust the duty rates on clearances by EOUs to the DTA at 25 per cent of basic customs duty plus excise duty on like goods. This will still give the EOU a tariff advantage or, at any rate, in most cases, it will be on par with a DTA unit.

136. Finally, I have an important proposal that involves both excise and customs duties. Cotton textile industry has greatly benefited from the relief granted two years ago. The man-made textile industry is a growth and employment driver. It deserves encouragement. Hence, I propose to reduce the excise duty on all man-made fibre yarn and filament yarn from 16 per cent to 8 per cent. Simultaneously, I propose to reduce the import duty on all man-made fibres and yarns from 15 per cent to 10 per cent. Consequently, the import duty on raw materials such as DMT, PTA and MEG will also be reduced from 15 per cent to 10 per cent. The import duty on paraxylene is proposed to be reduced to 2 per cent.

137. I have a few proposals on the excise side. I reiterate that it is our intention to converge all rates at the CENVAT rate which is now at 16 per cent. There are only two items - aerated drinks and cars - that still attract the higher rate of 24 per cent. I propose to correct this substantially. I propose to reduce the excise duty on aerated drinks to 16 per cent. On cars, I propose to reduce the excise duty to 16 per cent, but only for small cars. A small car, for this purpose, will mean a car of length not exceeding 4,000 mm and with an engine capacity not exceeding 1,500 cc for diesel cars and not exceeding 1,200 cc for petrol cars. I am confident that industry will seize the opportunity to make India a hub for the manufacture of small and fuel-efficient cars.

138. I propose to impose an 8 per cent excise duty on packaged software sold over the counter. Customized software and software packages downloaded from the internet will be exempt from this levy.  
139. I propose to fully exempt from excise duty DVD Drives, Flash Drives and Combo Drives.

140. Many food items, including packaged items, attract nil excise duty. With a view to giving a fillip to the food processing industry, I propose to fully exempt from excise duty condensed milk, ice cream, preparations of meat, fish and poultry, pastas, pasta and yeast. Excise duty on ready-to-eat packaged foods and instant food mixes, like dosa and idli mixes, will be reduced from 16 per cent to 8 per cent.

141. Since leather and footwear are thrust sectors, I propose to exempt from excise duty two vegetable tanning extracts, namely, quebracho and chestnut. Footwear carrying a retail sale price up to Rs.250 is already exempt from excise duty. I propose to reduce excise duty on footwear with a retail sale price between Rs.250 and Rs.750 from 16 per cent to 8 per cent.

142. At present LPG stoves up to a value of Rs.2,000 attract excise duty of 8 per cent. I propose to extend the concessional rate to all LPG stoves without any value limit.

143. To promote the use of energy efficient lamps, I propose to reduce the excise duty on compact fluorescent lamps from 16 per cent to 8 per cent.

144. I propose to remove rate differences between different kinds of tableware and kitchenware. Consequently, glassware will attract excise duty of 16 per cent on par with ceramicware and plasticware.

145. Paper finds widespread use in education as well as in packaging. In order to encourage capacity addition, I propose to reduce excise duty on specified printing, writing and pecking paper from 16 per cent to 12 per cent.

146. Domestically produced petroleum crude is subject to a cess under the Oil Industries Development Act. The rate of Rs.1,800 per metric tonne was fixed in 2002. After consulting the Ministry of Petroleum and Natural Gas, I propose to increase the cess to Rs.2,500 per MT. I have been assured that this increase will be absorbed by the oil producing companies and have no impact on retail prices of petroleum products.

147. There are two requests from trade and industry. I had exempted computers from excise duty in order to boost the use of computers. That purpose has been largely served. Domestic manufacturers have sought re-imposition of excise duty at 12 per cent in order to enable them to take CENVAT credit as well as to face competition from imports. I propose to accept the request. Since the 12 per cent excise duty will be eligible for full input tax credit, there should not be any impact on price.

148. The second request is to impose excise duty on set top boxes. I propose to accept the request and levy an excise duty of 18 per cent and, at the same time, reduce the customs duty from 15 per cent to nil. This change will equalize the duty rates on various types of set top boxes.

149. To round off, I would befalling in my duty if I did not raise the excise duty on cigarettes. Hence, I propose to increase the excise duty on cigarettes by about 5 per cent.

150. The ban of excise and customs tariffs is the plethora of exemptions. On the basis of a comprehensive review, I propose to remove many exemptions that were granted through notifications. Broadly, exemptions that are end-use based or have outlived their utility or need clarification or give rise to disputes are being rescinded, with only a few exceptions. The exemption for the SSI sector will, however, remain unchanged.

151. We have also identified some more notifications which need to be removed. However, before taking a final view, I propose to put a list of such notifications on the Ministry's website and invite comments.

152. This leaves service tax. In 2005-06, the ser-

vice sector is estimated to contribute 54 per cent of GDP. Naturally, it should also contribute significantly to the exchequer. Continuing in the direction followed in the last few years, I propose to bring more services under the service tax net. The new services to be covered include ATM operations, maintenance and management; registrars, share transfer agents and bankers to an issue; sale of space or time, other than in the print media; for advertisements; sponsorship of events, other than sports events, by companies; international air travel excluding economy class passengers; container services on rail, excluding the railway freight charges; business support services; auctioneering; recovery agents; ship management services; travel on cruise ships; and public relations management services.

153. I also propose to expand the coverage of certain services now subject to service tax. I do not wish to burden the House with the details which are available in the Budget papers.

154. The leasing and hire purchase industry has faced some difficulty owing to the levy of service tax on all components of payments, including interest. I propose to rectify the anomaly. Accordingly, interest and instalments of the principal amount will be abated in calculating the value of the service.

155. It is my sense that there is a large consensus that the country should move towards a national level Goods and Services Tax (GST) that should be shared between the Centre and the States. I propose that we set April 1, 2010 as the date for introducing GST. World over, goods and services attract the same rate of tax. That is the foundation of a GST. People must get used to the idea of a GST. Hence, we must progressively converge the service tax rate and the CENVAT rate. I propose to take one step this year and increase the service tax rate from 10 per cent to 12 per cent. Let me hasten to add that since service tax paid can be credited against service tax payable or excise duty payable, the net impact will be very small.

#### Direct Taxes

156. I shall now turn to my proposals on direct taxes.  
157. The good news is that there will be no change in the rates of personal income tax or corporate income tax.

158. The other piece of good news is that no new taxes are being imposed.  
159. The one-by-six scheme under the Income Tax Act obliging certain categories of persons to file returns will stand abolished.

160. I propose to marginally revise certain tax rates in the quest for equity. While the corporate tax rate is 30 per cent, the rate under Minimum Alternate Tax (MAT) is only 7.5 per cent of book profits. I propose to increase the rate to 10 per cent, which is still only one-third of the normal rate. I also propose to include long-term capital gains arising out of securities in calculating book profits. I have already allowed MAT-paying companies to take credit for MAT over five years. I propose to extend the period to seven years as well as adjust MAT credit while calculating interest liability.

161. The rates for the Securities Transaction Tax (STT) were fixed when prices of securities were much lower. Reflecting the increase in implicit capital gains

in securities transactions, I propose an increase of 25 per cent, across the board, on all rates of STT.

162. Section 80IA of the Income Tax Act applies to infrastructure facilities. For developing an industrial park the terminal date is March 31, 2006. I propose to extend the period to March 31, 2009. For the power sector, in view of the ultra mega projects, I propose to extend the date to March 31, 2010.

163. Last year, I recast the provisions relating to savings. Fixed deposits were not included. There is a demand that fixed deposits of certain tenure should qualify for tax exemption. I propose to include investments in fixed deposits in scheduled banks for a term of not less than five years in section 80C of the Income Tax Act. I also propose to remove the limit of Rs.10,000 in respect of contribution to certain pension funds in section 80CCC, subject to the overall ceiling of Rs.100,000.

164. I propose to align the definition of open-ended equity-oriented schemes of mutual funds in the Income Tax Act with the definition adopted by SEBI. I also propose to treat open-ended equity-oriented schemes and closed-ended equity-oriented schemes on par for the purpose of exemption from dividend distribution tax.

165. I have revisited the exemptions in the Income Tax Act. As a result, I propose to remove the exemption under section 10(23) which is not relevant when interest rates are moderate.

166. Cooperative banks, like any other bank, are lending institutions and should pay tax on their profits. Primary Agricultural Credit Societies (PACS) and Primary Cooperative Agricultural and Rural Development Banks (PCARDB) stand on a special footing and will continue to be exempt from tax under section 80P of the Income Tax Act. However, I propose to exclude all other cooperative banks from the scope of that section.

167. Section 54EC and section 54ED are tax shelters. I propose to restrict the scope of section 54EC to two institutions, viz., NHAI and REC. For NABARD, SIDBI and NHB, which are banks, we have already opened the route of zero coupon bonds to raise low cost funds. Government will, if needed, provide appropriate support to these institutions to enable them to access resources to fulfil their mandate effectively. I also propose to withdraw the benefit of section 54ED, which has become virtually redundant, with effect from April 1, 2006.

168. The Standing Committee on Finance has expressed concern that many charitable institutions misuse the provisions of the Income Tax Act. I propose to focus on one misuse, namely, receiving anonymous or pseudonymous donations. Accordingly, I propose that anonymous or pseudonymous donations to wholly charitable institutions will be taxed at the highest marginal rate. Such donations to partly religious and partly charitable institutions/trusts will be taxed only if the donation is specifically for an educational or medical purpose. However, I make it clear that such donations to wholly religious institutions and religious trusts will not be covered by the new provision.

169. Members of State Legislatures have complained that their constituency allowances are taxed differently from the constituency allowances received by Members of Parliament. I propose to remove the discrimination and treat them equally.

170. The Permanent Account Number (PAN) of the Department of Income Tax is the critical element in capturing incomes and expenditures. Scrutiny of Annual Information Returns (AIR) on high-value transactions reveals that 60 per cent of the transactions are without quoting PAN. Hence, I propose to take the power to issue PAN suo motu in certain cases. I also propose to take the power to direct persons to apply for PAN in certain cases. I propose to notify, in due

course, more transactions for which quoting of PAN will be mandatory. I also propose to prescribe a few more transactions to be reported in AIRs.

171. Last year, I introduced two new taxes. The Banking Cash Transaction Tax (BCTT) has turned out to be a boon, not for the modest revenues it brought which was never its purpose, but for the remarkable traits that it has helped establish. To cite just one example, huge cash withdrawals in a bank branch in Chandni Chowk, noticed through the BCTT, led the Department of Income Tax to three entities which were carrying on the business of purchasing demand drafts from traders at a discount and helping the traders to avoid both sales tax and income tax. These entities would deposit the demand drafts in their own accounts and withdraw the cash. In a period of 18 months, they had laundered Rs.1,500 crore. BCTT has also helped the Department to detect bogus bills, accommodation entries, artificial loss claims and dummy firms. I propose to continue the BCTT for some more time until the AIR system is able to capture all significant financial transactions.

172. Fringe Benefit Tax (FBT) was introduced as a revenue raising measure. FBT can be justified on the grounds of horizontal equity and vertical equity. Nevertheless, I have reviewed it with an open mind. I have also taken on board the views expressed by the apex chambers of commerce. I propose to make the following changes in chapter XII-H of the Income Tax Act:

- Value the benefit in the form of 'tour and travel' at 5 per cent instead of 20 per cent;
- Value the benefit in the form of 'hospitality' and 'use of hotel boarding and lodging facilities', in the case of airline companies and shipping industry, at 5 per cent instead of 20 per cent;

- Exclude the expenses on free samples of medicines and of medical equipment distributed to doctors;
- Exclude the expenses incurred on brand ambassador and celebrity endorsement; and

- Prescribe a threshold of Rs.100,000 under section 115WB(1)(c) so that only a contribution by an employer to an approved superannuation fund in excess of Rs.100,000 per year per employee will attract FBT. Under section

## When silence speaks just as loud

If one has come to expect high drama from the annual budget, the United Progressive Alliance Government's third budget presented by Finance Minister P. Chidambaram was singularly lacking in it. High growth is the big idea behind the exercise but the push either from the side of investments in infrastructure or from the side of incentives has not been particularly strong, even as overall it has been without surprises, pleasant or unpleasant. With the economy registering a historically high growth rate of 8 per cent on average over the past three years, the Finance Minister perhaps felt he did not need to do more. Yet, if the country were to move towards the goal of achieving the East Asian levels of 8 to 10 per cent often invoked by Prime Minister Manmohan Singh, the question arises — could the budget not have been more ambitious? To its credit though, without being dramatic it is certainly sound and does not depart from prudent fiscal management. If last year Mr. Chidambaram had paused on fiscal consolidation, pushing the revenue and fiscal deficit reduction targets by a year, the actual performance in the current year has bettered his projections, with the revenue deficit coming down to 2.6 per cent of the GDP and the fiscal deficit to 4.1 per cent. This fiscal correction is to continue next year with the revenue deficit going down to 2.1 per cent and the fiscal deficit to 3.8 per cent. The Fiscal Responsibility and Budget Management Act calls for an annual reduction of 0.5 percentage point in the revenue deficit and any slackening on this score would have eroded the credibility of the commitment to sound fiscal management. The reduction in the deficits has been made possible in large part by the buoyancy in revenues — that increased by almost 20 per cent in each of the last two years — but a certain slowdown in spending also seems to have played a role.

More than the tax proposals, the Finance Minister has sought to emphasise spending, particularly in the area of anti-poverty and rural programmes and infrastructure. For the National Rural Employment Guarantee Scheme, an outlay of Rs.11,300 crore has been provided together with the promise of more if needed, as against the Rs.10,000 crore for its precursor, the food for work programme. An additional Rs.3,000 crore has been provided for other rural employment projects. Overall, the eight flagship programmes in the social sector — in the areas of rural employment, health, education, mid-day meal, and urban renewal — are to get a huge increase of 43.2 per cent next year. In addition, a range of measures to benefit farmers including a subvention to lower the cost of crop loans has been announced. A major constraint on growth has been infrastructure, particularly power, roads, ports, and communications and the higher outlays on these areas are welcome. If last year the need to foster institutions of excellence in education was recognised and a grant of Rs.100 crore made to the Indian Institute of Science, this year the three oldest universities in the country, Kolkata, Mumbai, and Madras are to get Rs.100 crore each, while the Punjab Agricultural University, Ludhiana, is to get a similar grant in recognition of its contribution to the green revolution.

In taxation, the budget follows the trend of the previous years and there are no major incentives or dampeners. Mr. Chidambaram has once again affirmed his commitment to the philosophy that moderate tax rates together with better administration and enforcement will generate high revenues. Following the declared intent to bring customs duty rates down to ASEAN levels, the Finance Minister has cut the peak import duty on non-agricultural products from 15 to 12.5 per cent. The heavy reliance on customs duties for revenue has obviously inhibited a sharper reduction. The cut in the excise duty on small cars is expected to provide a boost to the automobile sector, raising visions of India becoming a major manufacturer of small cars. The service tax from its small, hesitant beginnings has now grown into a major source of revenue and it was natural for the Finance Minister to increase the rate from 10 to 12 per cent, and also widen its coverage. The new activities brought into the net include ATM services, sale of space or time for advertisements, international air travel, auctioneering, and public relations management. The one-by-six scheme introduced with great fanfare as a magic wand to bring in more people into the income tax net is now to be abandoned on the reasoning that it has outlived its utility. On the other hand, two of the unpopular measures of the last budget, the tax on cash withdrawals from banks and the fringe benefit tax, are to stay. The fringe benefit tax is softened by reducing the value of travel covered from 20 to 5 per cent and by exempting contributions to approved provident funds up to Rs.1 lakh.

In the difficult areas of reform, silence seems to speak more eloquently than Mr. Chidambaram's words. The budget takes credit for Rs.3,640 crore from the sale of shares of public sector undertakings but that remains in the realm of wishful thinking. More significantly, there is not a word about the issue in the budget speech. Neither is there a mention of any move to pass through the increases in the price of petroleum products in the world markets as stressed in the Economic Survey. Another area touched upon in the Survey relates to subsidies. A Planning Commission study has shown that to confer a benefit of Re.1 through the public distribution system, the government spends Rs.3.65. Subsidies are no doubt a political minefield, but there is not even a plan to make the delivery system more effective and the Finance Minister has stopped with a call for political consensus. In the initial period, brave words announcing reforms ran ahead of what was politically feasible and opposition — particularly from the Left — either stalled some reforms or forced a modification. Having been bitten more than once, the Finance Minister has obviously learnt the virtues of prior consultation and consensus-building — rather than unilaterally announcing measures on which there is no agreement — in functioning as part of a minority, coalition government dependent on outside support.

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