

Indian Budget: 2008-09

For the International Business Community

February 29, 2008

© Nishith Desai Associates

From the Editor

Think Global, dear FM!

Dear Friends,

It is that time of the year again. Earlier today, the Indian Finance Minister Mr. P. Chidambaram ("FM") announced the budget for the year 2008-09, the run up to which has been rife with speculation, especially in light of the Indian growth story and the increasing phenomenon of Indian companies going global.

Unfortunately, this year's budget completely missed the bus as far as developing a global mindset goes. In spite of casting focus on upcoming sectors such as infrastructure, manufacturing, education and healthcare, the budgetary proposals read like a list of missed opportunities. To start with, the Government introduced a write-off of bad agricultural debts of value INR 50,000 crores (approximately USD 12.5 billion). While on the one hand, Indian taxpayers' money has been deployed for such write-offs, on the other hand, the Government has been rejecting applications made by reputable, socially conscious funds from developed regions such as the US and Europe, which are interested in participation in the Indian micro-finance sector on a large scale. The Government has simultaneously also placed restrictions on Indian micro-finance institutions from borrowing more than USD 5,000,000 from abroad. Some key observations are as follows:

Developing a New Gen tax regime: In times when most governments have become extremely proactive in creating tax regimes favorable to inflow of foreign investments and talent, the Finance Bill remains silent on key issues relating to the taxation of hybrid entities (how a foreign limited liability partnership (LLP) would be taxed in India, whether a foreign limited liability company (LLC) would be considered transparent for Indian tax purposes), taxation of hybrid instruments (such as total return swaps / currency swaps), global tax consolidation, participation exemptions to holding companies (popularized by European countries like Netherlands) etc. Considering the significant volume of foreign investments into India, concessional tax provisions for asset management companies could have been introduced (similar to those introduced by Singapore), to enable India to develop its financial services industry. It was also a major disappointment that, despite much discussion on the issue, there was no extension of the 2009 sunset clause applicable to tax exempt software technology park and export promotion units. Coming next year it may be expected that these units would begin to contribute significant taxes to the coffers of the Indian revenue authorities, provided that they do not decide to relocate to a more tax friendly jurisdiction.

Though the FM could have offered facilitative tax regime for setting up regional headquarters in India, encouraged leveraged buy outs, provided exemptions to Indian companies participating in foreign mergers and acquisitions etc, no such proposals have been made. Presently, while Indian shareholders are exempt from taxation on merger of domestic companies, they continue to be taxable on the notional gains arising on account of merger of foreign companies.

HEADLINES

DIRECT TAXES

Income Tax Rates

- [Corporate Tax Rates](#)
- [Personal Tax Rates](#)
- [Short Term Capital Gains Tax Rate](#)

Dividend Distribution Tax

Fringe Benefit Tax

Minimum Alternate Tax

Capital Markets

- [Foreign Currency Exchangeable Bonds](#)
- [Corporate Bond Market](#)
- [Carbon Credit Trading](#)
- [Reverse Mortgage Scheme](#)
- [Securities Transaction Tax](#)
- [Commodities Transaction Tax](#)
- [Banking Cash Transaction Tax](#)

Sector Specific Incentives

- [Research & Development](#)
- [Information Technology](#)
- [Hotels](#)
- [Hospitals](#)
- [Mineral Oils](#)
- [Charitable Institutions](#)

Tax Treaties: Update

INDIRECT TAXES

Service Tax

Value Added Tax

Customs

Central Excise

DISCLAIMER

This Legal Update is not intended to be a source of advertising or solicitation and the contents of the Legal Update should not be construed as legal advice. The reader should not consider this information to be an invitation for a lawyer-client relationship and should not rely on the information provided herein and should always seek the advice of competent counsel licensed to practice in the reader's country/state.

Partial relief has been introduced on dividends distributed by a subsidiary to a parent under a single-tier structure, wherein a parent would be permitted to claim deduction of the dividend distribution tax ("DDT") paid by the subsidiary. While this benefit has been introduced to avoid cascading effect of double payment of DDT, the availability of benefit has been restricted to single-tier structures, thus excluding companies which have multi-tier subsidiaries for strategic business purposes.

The rates of corporate tax have undergone no change overall, and remain constant at 33.99% with DDT levied at the rate of 16.995%. Going by the standards of competing countries like China (corporate tax rate of 25%) and Singapore (corporate tax rate of 18%), the Indian corporate tax rate combined with DDT continues to be high at the rate of 43%. Further, short term capital gains tax ("STCG") on transfer of listed securities has been increased to 16.995% this year (from 11.33%), to bring it in parity with the rate of dividend distribution tax in India. This may prove to be a blow to FIIs investing into India, as they would be required to pay 16.995% tax whereas they are typically exempt from taxation in most jurisdictions. Such amendments could make foreign investors vulnerable to annual budgetary changes, creating an unstable and uncertain tax environment. Further, rulings such as *Fidelity Advisor Series* have created significant uncertainty as to taxation in India of institutional investment entities such as FIIs and venture capital funds. The Budget has made no attempts to resolve these issues. There also continue to be anomalies in the rates of taxation of interest on foreign loans. While interest on foreign currency loans is taxed at the rate of 21.115%, interest on foreign borrowings in rupee terms remains taxable at the rate of 42.23%.

Charitable Sector: In May, 1993 the Harvard Business Review discussed how the charitable sector poses opportunities worth USD 130 billion. No discussion has gone into the tapping of the global opportunities in the not for profit sector. We are also yet to develop a regime for the promotion and regulation of cross-border charities.

Foreign Corrupt Practices: In the US foreign corrupt practices result in serious tax penalties - considering that we are developing into an outwardly growing economy, it is important that these issues are taken into consideration and our tax systems are accordingly modified.

Key Sectors for Investment: The most heartening budgetary proposals relate to sectors which appear to be the key areas of focus for India this year, namely, infrastructure, manufacturing, education, R&D, healthcare and tourism. Benefits have been provided across income tax, customs and excise taxes to participants in these sectors, the details of which you will find in our budgetary analysis. For example, weighted deductions of 125% can be claimed for sums paid to an approved Indian company for expenses incurred by it on scientific research and development. This could benefit industries such as those in the pharmaceutical sector which incur significant expenses on research and development. In line with the increased focus on healthcare, tax exemption will also be offered to hospitals located anywhere in India except specifically excluded urban developed areas. This benefit will commence from April 1, 2008 and will be available till March 31, 2013. Beneficial tax treatment will be provided to the hospitality industry which will not be required to pay any income taxes on 2, 3 or 4 star hotels set up at World Heritage Sites specified by the UNESCO. This tax holiday will be available from April 1, 2008 to March 31, 2013 in the interests of promoting history and tourism – a desirable move for a country as culturally rich as India.

There has also been reduction of personal tax rates for individuals and certain procedural amendments such as those relating to withholding taxes.

To summarize, while there have been no startling budgetary proposals this year, and while the budget has focused on the development of upcoming sectors in India, this year's budget fails to reflect the growing metamorphosis of India into a globalised economy. While absence of support from the tax authorities has, till date, not hampered the Indian economic boom, one can only hope that the budgetary amendments in the years to come and the impending new comprehensive tax code will be more encouraging. It would also be important to ensure that budgetary proposals are implemented in the appropriate manner. For example, in the 2007-08 Budget, the FM had made a proposal for the transformation of Mumbai into an international financial center and realizing the objective of making 'financial services' the next growth engine for India. Nothing has been said about this in this year's budget.

It leaves one to wonder where planning will take us, if promises made in one year can be forgotten so soon...!

- [The International Tax Team](#)

DIRECT TAXES

[Back](#)

Income Tax Rates

The Finance Bill, 2008 (“Budget”) has not proposed any significant changes in the rates of direct taxes.

• **Corporate Tax Rates**

To the disappointment of the corporate community which was expecting some reduction in the income tax rates, the Indian Finance Minister (“FM”) left the income tax rates unchanged at 30%¹ for an Indian company and 40% for a foreign company. There is no change in the surcharge and the education cess as well.

• **Personal Tax Rates**

For the fiscal year 2008-09, the effective rates of taxes on Individuals, Hindu Undivided Families, Association of Persons, etc. will be as follows:

Income (in INR)	Rate ¹
0 to 150,000 ²	NIL
150,000 to 300,000	10%
300,000 to 500,000	20%
Above 500,000	30%

1. Exclusive of surcharge at the rate of 10% on income above INR 1,000,000 and education cess at the rate of 3% (on tax and surcharge).
2. INR 180,000 for resident women and INR 225,000 for resident senior citizens.

• **Short Term Capital Gains Tax Rate**

Currently, long term capital gains earned on sale of shares and units of equity oriented mutual funds held for more than one year are tax exempt in India, provided securities transaction tax (“STT”) has been paid on the same. Short term capital gains arising from transfer of shares and units of equity oriented mutual funds held for one year or less are taxable at the rate of 10%, provided STT has been paid on the same. The FM in a single stroke has sought to increase this rate to 15%. This would leave the foreign institutional investors (“FILs”) as well as private equity investors in a lurch if they have invested from non-tax favoured jurisdictions. This change in the tax rate would justify

¹ All tax rates mentioned in this newsletter henceforth are exclusive of surcharge and education cess

investments being made through favorable treaty jurisdictions such as Mauritius as unlike the domestic law, it is not possible to change the tax treaty provisions unilaterally.

Dividend Distribution Tax

Currently, all Indian companies paying dividend to their shareholders are required to pay a Dividend Distribution Tax (“DDT”) of 15%. The FM has brought about some relief to group companies by introducing a provision preventing the cascading effect of DDT upto one level. In order to help domestic companies effectively organize their business, the FM has proposed to permit a deduction to the company distributing dividends to its shareholders, of an amount equivalent to dividend paid by its subsidiary company. While this is a welcome move aimed at tax rationalization, it may result in unintended discrimination against foreign companies as well as large corporate houses who have multiple tier subsidiaries to house various business units. However, this relief will be available only at one level, and may not be available in the event the Indian parent company is in turn held by another entity, whether in India or outside India.

Instead of acceding to the Industry request of introducing tax consolidation for the group companies, the FM has introduced the limited DDT relief, which will not be of much help in case of step-down subsidiaries.

Fringe Benefit Tax

While Fringe Benefit Tax (“FBT”) continues to haunt the employers, the FM has brought marginal relief to the companies by proposing to exclude the following expenditures from the ambit of FBT:

- Payment through non-transferable pre-paid electronic meal card usable only at certain eating joints or outlets;
- Expense incurred to provide crèche facility for the children of the employee;
- Sponsorship of a sportsman, being an employee;
- Expense incurred to organize sports event for employees; and
- Maintenance of a guest house for employees.

FBT on employee stock options was introduced by the FM last year. The Budget seeks to include a provision in the Indian Income Tax Act, 1961 (“ITA”) deeming such FBT paid by the employer as actually paid by the employee to the extent it is actually recovered from the employee. The FM has failed to

realize that the domestic tax laws of the foreign country would play an important role in determining availability of tax credits. However, the employee shall not be entitled to claim refund of such FBT or credit of such payment of FBT against tax liability on other income.

Minimum Alternate Tax

Currently a minimum alternate tax ("MAT") of 10% is payable on the book profits of every company. In this respect, the mechanism of calculation of book profits has been provided in the ITA after carrying out certain adjustments. The Budget proposes to increase the book profits of a company by including the amount of deferred tax and provision therefor. The intention behind this change is to specifically provide for add back of "below the line" items since these were thought to be included in income tax (which was also added back to increase the book profits), but there existed some ambiguity with respect to the same.

Further, the Budget has also clarified that income tax which would also go towards increasing the book profits would include dividend distribution tax, any interest paid, surcharge and education cess.

Capital Markets

The Budget announcements in respect of the capital markets are a mixed bag of goodies. The increase in the short term capital gains tax rate from 10% to 15% would hit the FIIs hard as many of them are endowments, pension plans, universities or sovereign funds which are tax exempt in their home countries. Those FIIs which dared to invest without the shield of treaty countries such as Mauritius or Cyprus, will find themselves in a vulnerable position. The FM has projected a negative image by increasing the short term capital gains tax rate by 50%, creating an unstable and uncertain tax environment.

On the brighter side, the Budget has provided for simplicity to participants in the securities market by making Permanent Account Number (tax payer's identification number) the sole identification number for all operations on the capital market. However, this will be subject to suitable threshold exemption limits. This will clarify a lot of confusion regarding the different identification numbers required for participants in the capital market so far.

• Foreign Currency Exchangeable Bonds

In 1992, the Indian Government permitted Indian companies to issue foreign currency convertible bonds ("FCCBs") and provided for a special tax regime for non resident investors, so as to encourage the flow of foreign exchange into India. Recently in mid February, 2008 the Indian Government has permitted Indian companies to issue Foreign Currency Exchangeable Bonds ("FCEBs"). FCEBs are bonds expressed in foreign currency, the principal and interest in respect of which is payable in foreign currency. FCEBs can be converted either into shares of the issuing company or into shares of a group company.

With a view to provide a level playing field to FCEBs, it is proposed that the conversion of FCEBs into shares or debentures of any company shall not be treated as a transfer for the purposes of capital gains tax. Also the cost of acquisition, for calculating capital gains at the time when the security would be finally sold would be the cost at which the FCEBs would have been acquired.

• Corporate Bond Market

With a view to provide the much needed fillip to the corporate bonds market, the FM has proposed the removal of withholding tax obligations on any interest payable to an Indian resident on any security issued by a company where such a security is in dematerialized form and is listed on a recognised stock exchange in India.

The Budget has further announced measures to expand the market for corporate bonds. Most notable amongst these measures are:

- Exchange-traded currency and interest rate futures to be launched and transparent credit derivatives market to be developed with appropriate safeguards;
- Tradability of domestic convertible bonds to be enhanced through the mechanism of enabling investors to separate the embedded equity option from the convertible bond, and trade it separately;
- Development of a market-based system for classifying financial instruments based on their complexity and implicit risks to be encouraged.

It is proposed that the 'Empowered Committee of State Finance Ministers' work with the Government to create a National Securities Market that will expand the market base and enhance the revenues of the State Governments.

- **Carbon Credit Trading**

Environmental laws and policies have gained immense importance, both at the domestic level and internationally, in light of the threat posed by climate change. This was underscored by the FM in his budget speech. In order to take steps to combat climate change, the FM has proposed the setting up of a trading platform for carbon emissions in addition to establishing a permanent institutional mechanism that will play a development and coordination role.

- **Reverse Mortgage Scheme**

The FM has provided an impetus to the reverse mortgage scheme by providing for an exemption from capital gains tax when a property is transferred under such a mortgage. In a reverse mortgage, the property owner being a senior citizen of India surrenders the title of the property to a financial institution. The institution does not pay the entire consideration, but pays out regular monthly sums for an agreed period. The transferor gets to stay in the property along with his/her spouse for their lifetime. Thus, the transferor can ensure a regular cash flow in times of need and enjoy the benefit of staying in the property. The income in the hands of the transferor will also be tax exempt. After the transferor's and spouse's death, the property is transferred to the institution, and not to the heirs.

- **Securities Transaction Tax**

Currently, STT paid is allowed as a rebate from the income tax payable by a trader provided the income from the sale of securities is taxed as business income. The Budget seeks to disallow the rebate and instead has introduced a deduction for the STT from the business income. This will increase the tax burden on the traders since a rebate is adjusted against the tax payable, whereas a deduction is adjusted against the income of the taxpayer.

- **Commodities Transaction Tax ("CTT")**

The Budget proposes to introduce a new tax called the CTT with effect from April 1, 2008. CTT is proposed to be levied on taxable commodities transaction entered in a recognized association. CTT is proposed to be levied at the following rates:

	Taxable commodities transaction	Rate	Payable by
1.	Sale of an option in goods or an option in commodity derivative	0.017% on option premium	Seller
2.	Sale of an option in goods or an option in	0.0125% on the settlement	Purchaser

	commodity derivative, where option is exercised	price of the option	
3.	Sale of any other commodity derivative	0.017% of the price at which the commodity derivative is sold	Seller

A deduction of the CTT paid will be available to a taxpayer provided that the income from commodities transactions is taxable as the business income.

- **Banking Cash Transaction Tax ("BCTT")**

The Budget proposes to remove the BCTT currently applicable at the rate of 0.1% on the receipt or withdrawal of cash on a single day exceeding INR 100,000 (for a company) from a scheduled bank with effect from April 1, 2009.

Sector Specific Incentive s

- **Research and Development ("R&D")**

With a view to encourage outsourcing of R&D in India, the Budget has extended the scope of the weighted deduction of 125% available for expense incurred on R&D to include such expense incurred by way of contribution to an approved Indian company engaged in R&D. Even though this insertion is a step in the right direction to promote scientific research and development, interestingly, the government has not extended the time line (which expired on March 31, 2007) under Section 80IB (8A) of the ITA for obtaining an approval by a company carrying on scientific research and development, which is a mandatory requirement for availing the tax holiday provided under the said section.

- **Information Technology ("IT")**

Units set up in Software Technology Parks, Hardware Technology Parks, Free Trade Zones, and 100% export oriented units are currently enjoying tax holiday under Section 10A and 10B of the ITA. This exemption is set to expire in the financial year ending in March 2009. The IT Industry had put forth various submissions before the Indian Government and sought an extension of the tax holiday especially in the wake of the strengthening rupee, and the corresponding declining export profits. Against the hopes of the IT Industry, the FM has not announced the extension of the tax holidays currently available to these IT units. Once this exemption is gone, these IT units will

be treated at par with other sectors, and will have to pay regular corporate taxes.

- **Hotels**

Last year, a new 5-year tax holiday was introduced for convention centers and 2, 3 or 4 star hotels in Delhi and districts of Faridabad, Gurgaon, Gautam Budh Nagar and Ghaziabad. With a view to promote tourism and attract tourists to World Heritage Sites in India, the Budget now proposes to extend the scope of the tax holiday to new 2, 3 or 4 star hotels located in specified districts having a UNESCO notified World Heritage Site. This tax holiday will be available to hotels provided they begin functioning at any time between April 1, 2008 and March 31, 2013.

- **Hospitals**

The Budget has a strong focus on health care. Currently, profits from operating and maintaining hospitals in rural area are exempt for five years. With a move aimed at improving the health conditions, the Budget seeks to extend a similar benefit to hospitals located anywhere in India except in specifically excluded areas with effect from April 1, 2009.

The excluded areas are areas comprising the urban agglomerations of Greater Mumbai, Delhi, Kolkata, Chennai, Hyderabad, Bangalore and Ahmedabad, the districts of Faridabad, Gurgaon, Ghaziabad, Gautam Budh Nagar and Gandhinagar and the city of Secunderabad. To avail the benefit, the hospital should be constructed and begin functioning at any time during the period from April 1, 2008 to March 31, 2013 and must comply with additional conditions provided in the ITA.

- **Mineral Oils**

The Budget has provided for a sunset clause for the tax holiday available to an undertaking engaged in refining of mineral oils. As per the proposed amendment, no deduction shall be allowed to an undertaking which commences the activity of refining of mineral oils after March 31, 2009.

- **Charitable Institutions**

Currently, income earned by entities set up for charitable purpose is tax exempt. The term "charitable purpose" has been defined to include the activities of providing relief for the poor, education, medical relief and the advancement of any other object of general public utility. With effect from April 1, 2009, the scope of the term "any other object of general public utility" would be reduced to exclude entities which carry on activities in the nature of trade, commerce or business, or service in relation

to trade, commerce or business. This amendment may serve to exclude entities such as sports associations, societies for the promotion of the art, heritage sites etc. which may have earlier enjoyed the tax exemption, if such entities are found to be carrying on activities in the nature of trade. This exclusion would apply irrespective of the nature of use or application of the income from such activities, or the retention of the income from such activities by that entity.

Tax Treaties: Update

Much stir has been created in the past year with regard to the impending question of re-negotiation of India's various tax treaties. For instance, in case of Cyprus, there have been media reports that the re-negotiation of the treaty has been concluded, and that the capital gains tax exemption has been removed and certain limitation of benefits have been introduced. However, the treaty has not been signed yet, and till the time the treaty is signed and notified, nothing concrete can be said about the same. In case of Mauritius too, there has been much speculation about the Indian government's intention to re-negotiate the Mauritius tax treaty, however, as of now, the two governments have not yet mutually agreed to re-negotiate the treaty. Thus, Mauritius still remains a good jurisdiction for inbound investment into India.

While the talks of re-negotiating India's treaties with Cyprus and Mauritius are on, on the other side, after extensive negotiations for five years, a tax treaty has been entered into by India with Luxembourg. While the treaty is yet to be notified, indications are that the proposed tax treaty may be useful for financial services, manufacturing and industry. It is also expected to benefit the manufacturing and airline companies of Luxembourg having linkages with India. The tax treaty with Mexico has also been signed, though not yet notified.

INDIRECT TAXES

[Back](#)

- **Service Tax**

Services remain an important sector as it comprises 55% of the GDP. The service tax rate remains unchanged at 12% (plus an education cess of 3%). Following new services have been included:

- **Asset Management Services provided under unit linked insurance business**

- **Services in relation to providing Customized Software** for use in the course of or furtherance of business or commerce
- **Services provided by a recognized association or commodity exchanges** in relation to sale or purchase of any goods or forward contracts
- **Services provided by recognized stock exchanges and processing and clearing houses in relation to securities**
- **Services in relation to supply of tangible goods, where no Value Added Tax ("VAT") is applicable.** Services provided in relation to supply of tangible goods, without transferring the right of possession and effective control of the said tangible goods. It is clarified that the services in relation to supply of those tangible goods for which VAT is applicable, will be deemed sale and hence shall be excluded. This may include transactions lease and hire purchase.

Exemptions: The threshold limit of service tax exemption for small service providers is proposed to be increased from INR 800,000 to INR 1,000,000 from April 1, 2008. Further hotel booking services provided by a person located outside India to a foreign customer, in relation to a hotel booking in India is exempt from the service tax. Further, the Goods Transport Agency service is being exempted from the payment of service tax to the extent of 75% of the freight. These exemptions shall be effective from March 1, 2008.

- **Value Added Tax**

- Central Sales Tax (CST) is proposed to be reduced from the existing 3% to 2% from April 1, 2008.
- Comprehensive Goods and Services Tax ("GST") regime to be introduced from April 1, 2010.

- **Customs**

The peak rate of Customs Duty has remains unchanged at 10%. Special provisions for specific sectors are as follows:

- **Project Imports:** Basic customs duty on project imports is proposed to be reduced to 5% (against earlier 7.5%) This would apply to certain projects such as airport development projects, metro rail projects, port development projects, railway electrification, digital cinema development projects etc.

- **IT / Electronic Industry:** A concessional duty of 5% (basic) is already available to certain electronic products such as MP3 and MPEG4 players, shall now be extended to "convergence products" which would include MP3/MP4 and MPEG players having audio and video reception facilities. Set top boxes are fully exempt from basic customs duty. Similarly, full exemption from basic customs duty is available to a large number of raw materials/ inputs for the manufacture of specified electronic / IT products to provide a level playing field.
- **Dairy / Poultry:** Basic Customs Duty has been reduced to Nil from 7.5% on bactofuges and to 20% (against earlier 30%) on feed additives / pre mixes.
- **Drugs and diagnostic kits:** Basic customs duty on six specified drugs / kits and bulk drugs for their manufacture has been reduced to 5% (against earlier 10%.) These are the drugs used in the treatment of cancer / diabetes / Hepatitis B etc. Specified raw materials and components for the manufacture of ELISA kits shall now enjoy a concessional duty of 5% (basic).
- **Gems and Jewellery:** In order to promote exports in this sector, it is proposed to exempt rough cubic zirconia from customs duty (as against 5% earlier). Similarly, the customs duty on rough coral will be reduced to 5 % (as against earlier 10%).
- **Metals:** Basic customs duty on iron or steel melting scrap and aluminium scrap shall be reduced to NIL (as against 5% earlier.)
- **Sports Goods:** Basic Customs Duty on specified machinery for manufacture of sports goods for export shall be 5%, subject to certain specified conditions (as against 7.5% earlier.) Similarly, basic customs duty on specified raw materials for manufacture of sports goods from exports shall be NIL (as against 10% earlier.)
- **Tobacco Products:** Basic customs duty on cigars, cheroots and cigarolls shall be reduced to 30% (as against earlier 60%)

Exemptions Withdrawn: Exemption from additional duty of customs of 4% has been withdrawn in case of power generation and distribution projects and high voltage transmission projects. The withdrawal of exemption is **also** applicable to naphtha used in the manufacture of polymers.

• **Central Excise**

General Central Value Added Tax (“CENVAT”) rate has been reduced from 16% to 14%. Sector specific amendments are as follows:

- **Information Technology and Communication Sector:** The excise duty on packaged software has been increased to 12 % (as against 8% earlier).
- **Export Oriented Units:** The effective rate of excise duty applicable to clearances of goods to domestic tariff area from export oriented units, software technology parks, electronic hardware technology parks etc. has been increased to 50% of the basic custom duty + excise duty payable on like goods as against 25% earlier.
- **Drugs and Pharmaceuticals:** The general rate of excise duty on certain drugs has been reduced to 8% from 16%. Further, excise duty has been fully exempt on anti- AIDS drug ATAZANVIR and bulk drugs used for its manufacture.
- **Automobiles:** The excise duty on small cars has been reduced from 16% to 12%. The excise duty on large cars will continue to remain at 24%. “Hybrid cars” will be subject to excise duty at a concessional rate of 14% and electrically operated vehicles enjoy a concessional rate of 8%. The excise duty on buses and vehicles for the transport of more than 13 persons has been reduced from 16% to 12%. Similarly the duty on chassis of such vehicles has also been reduced to 12% + INR 10,000. The excise duty on two wheelers and three wheeler has also been reduced to 12%.
- **Food Processing Sector:** Certain food products like tender coconut water, milk, sugar etc. shall be fully exempt from excise duty. The rate of excise duty on packaging material used mainly for packaging of processed foods shall be 8% (as against 16% earlier).
- **Cigarettes:** Excise duty rates on non-filter cigarettes have been enhanced to 819 (per 1000) (as against 168 per 1000) to bring them at par with filter cigarettes of corresponding length.

- **Paper and Paper products:** Excise duty on writing paper, printing paper and packing paper shall be reduced to 8% (as against earlier 12%).
- **National Calamity Contingent Duty (“NCCD”):** NCCD of 1% on Polyester filament yarn has been withdrawn. However, NCCD at the rate 1% will be imposed on mobiles phones. Further, the CENVAT Credit Rules have been amended to provide that input or capital goods credit of other duties of excise cannot be utilized for payment of this NCCD.

ADDRESS

93-B MITTAL COURT, NARIMAN POINT,
 MUMBAI 400 021 INDIA
 TEL: 91 22 6669-5000 / FAX: 91 22 6669-5001

220 CALIFORNIA AVENUE, SUITE 201,
 PALO ALTO, CA 94306, USA
 TEL: 1 650 325-7100 / FAX: 1 650 325-7300.

PRESTIGE LOKA, G01, 7/1 BRUNTON ROAD,
 BANGALORE 560 025 INDIA
 TEL: 91 80 6693 5000 FAX: 91 (80) 6693 5001

LEVEL 30, SIX BATTERY ROAD,
 SINGAPORE 049909
 TEL: 65 - 6550 9855 FAX: 65 - 6550 9856