States Clear One More GST Hurdle

The country moved a step closer to the implementation of a Goods and Services Tax (GST) after the state governments, key stakeholders, gave their in-principle approval to streamlining the taxation of services nationally. The empowered committee of state finance ministers, at its two-day meeting in Bhopal recently, agreed to tax services based on a negative list to ensure broad-based coverage. It also set a deadline for the computerisation of states commercial tax departments, removing two major hurdles for the implementation of the GST in India. Services that are part of the list won't be taxed. Sushil Kumar Modi, Deputy Chief Minister and Finance Minister of Bihar, who has been heading the empowered committee since July, said that with the GST roll-out missing the 1st April deadline, it may only be implemented from 1st April, 2013. As per the consensus, all services, except for a few defined under a negative list, may be taxed from the next fiscal. If the Union government signs on to the proposal, then it is likely to be included in the Union budget for 2012-2013. Since it will bring in untapped sectors, the Centre's revenue receipts will be boosted. "We have in principle agreed to tax services based on a negative list. But there are some disagreements between the Centre and the states," said Sushil Modi adding that 'the Constitution clearly specifies what items can be taxed by the Centre and what can be taxed by the states. All those items on which states are allowed to levy tax should be included in the negative list."

(***Source:*** *http://www.financialexpress.com/news)*

Good News for Economy: FDI up 56%; Indirect Tax Kitty Rises by 16.1%

Foreign Direct Investment (FDI) into India went up by an impressive 56% to $2.53 billion in November 2011, signaling improvement in investor sentiment. The cumulative flows of $22.83 billion for the April to November period have crossed $19.43 billion which came in the full fiscal of 2010-2011, according to officials. Analysts feel that if the trend continues, the FDI in the current financial year would well cross $30 billion, a development which will have a positive effect on Rupee in the foreign exchange market. In the face of selling pressures in the stock market from the foreign institutional investors and rising trade deficit, the Rupee has declined by about 15% since August 2011. While the FII inflows are considered "hot money", the FDI is quite stable. The improvement in FDI inflows in November comes after two months of declining trend. Meanwhile, belying concerns over slowdown, indirect tax collections increased 16.1% to ₹2,85,787 crore during April to December 2011 mainly driven by an uptick in service tax mop-up.

(***Source:*** *http://www.hindustantimes.com)*

Government to Address Slippages in Economic Parameters in Budget: Pranab

Admitting that the situation has not changed much during the past one year, Union Finance Minister Pranab Mukherjee recently said that he will have to address the slippages in economic parameters in the upcoming Budget. "I must confess, at this point in the year, I find myself in much the same situation," he said at 84th annual general meeting of FICCI in New Delhi. Warning that the months ahead are difficult, he said the growth rate could fall below 7.5% in the current financial year from 8.5% a year ago. There are also concerns on the Central Government finances for the current fiscal, he said, adding, performance during the first half on the fiscal front poses some risks in both receipts as well as expenditure estimates. "Adhering to the fiscal deficit target of 4.6% of GDP in 2011-2012 is a major challenge," he said.

Government May Make Declaring of Overseas Assets Details Mandatory by Taxpayers

The Government may make it mandatory for all taxpayers to provide details of their overseas assets, including bank accounts, while filing their annual tax returns, as the drive against tax evasion gains momentum. The proposed Direct Tax Code, or DTC, has a provision that seeks to cast an obligation on taxpayers to furnish full details of foreign assets. The government is now considering a proposal to amend the Income-tax Act, 1961 to incorporate this provision as the DTC may not come into effect from 1st April 2012, as originally planned, an official with knowledge of the matter said. The official, who declined to be named, said tax authorities are seeking legislative changes to ensure taxpayers declare foreign assets. Once this is made mandatory, taxpayers will have to come clean on their offshore accounts, as wilful non-compliance would lead to prosecution, the official said.

(***Source:*** *http://www.business-standard.com/india/)*

Hectic Policy Action Expected in Budget; Govt. to Unveil Investor-Friendly Policies

Finance Minister Pranab Mukherjee will attempt to nudge entrepreneurs to invest more by unveiling a raft of investor-friendly policies in the budget to be presented in March, as the Government looks to revive the economy without raising fiscal deficit. These policies include sops for infrastructure and labour-intensive industries and incentives to attract investment

in sectors such as urea, a commonly-used fertiliser, and cold chains and supply chains that help maintain the quality of food produce. "Driving investments will be one of the key areas... focus would be on measures for sectors such as infrastructure and those that benefit agriculture and employment generation," said a government official. Unlike 2008, the government does not have the leeway to step up spending to generate demand and is looking to spur private spending through policy impetus. The budget could announce easing of norms governing foreign investment in infrastructure and set up a dedicated infrastructure debt fund to provide support to public-private projects. It may also attempt to spur urea production by subsidising use of imported natural gas.
(***Source:*** *Press Trust of India)*

Import, Excise Duty Hike to Fuel Gold, Silver Price Rally

Consumers will have to shell out more for gold and silver jewellery, bars and coins. The cash-strapped government recently raised import and excise duties on gold and silver, hoping to mop up about ₹600 crore in additional revenue and contain its burgeoning current account deficit as the financial year draws to a close. Platinum and diamonds, too, will now attract an import duty of 2%. A Government notification said customs and excise duties would be levied on the value of gold and silver instead of a fixed amount. "This will allow the government to benefit from the rise in gold prices," said a finance ministry official. Ad valorem duty, which rises automatically when the value of a product goes up, is preferred from the point of view of tax policy as its facilitates easier credit besides capturing value addition at each stage. While the import duty on gold has been fixed at 2% of the value instead of the earlier ₹300 per 10 grams, that on silver has been pegged at 6% against ₹1,500 per kg. Excise duty on gold has been fixed at 1.5% of the value against the earlier rate of ₹200 per 10 grams. Silver will attract excise of 4% compared to ₹1,000 per kg earlier. At a 2% rate, the import duty on gold will double to over ₹540 per 10 grams at current prices.
(***Source:*** *http://www.thehindubusinessline.com/)*

Insurers to Change Ulip Structure in Line with DTC

Insurers are set to tweak their unit linked insurance product (Ulips) offerings once the Direct Tax Code (DTC) kicks in. Ulip structures are likely to undergo a change and a higher life cover may be offered to qualify for tax benefits. Clause 70 of the DTC, 2010 specifies that only insurance policies where the annual premium paid does not exceed 5% of the capital sum assured will qualify for deduction. This implies that the minimum life cover should be 20 times the premium paid. Under the current regulatory guidelines, insurance companies are required to offer a minimum cover of 10 times the premium paid in a year.
(***Source:*** *http://www.economictimes.com)*

Transfer Pricing: TPO is duty bound to eliminate differences in comparables data

In a Transfer Pricing matter in *Demag Cranes & Components (India) Vs. DCIT,* the ITAT Pune had to consider whether for purposes of making adjustment under Rule 10B (1)(e)(iii) working capital constituted a difference between the international transactions and the comparable uncontrolled transactions of between the enterprises entering into such transactions and if so whether the said difference could materially affect the amount of net profit margin of relevant transactions in the open market. The tribunal held that Rule 10B(e)(iii) provides that the profit margin arising in comparable uncontrolled transactions has to be adjusted to take into account the differences, if any between the international transaction and the comparable uncontrolled transactions, or between the enterprises entering into such transactions, which could materially affect the amount of net profit margin in the open market. While the differences are not specified, it covers any differences which could materially affect the amount of net profit margin. The litmus test to be applied is if the difference, if any, is capable of affecting the NPM in open market? If yes, then the TPO is under statutory obligation to eliminate such differences. The revenue cannot say that difference is likely to exist in all accounts and so the demands of the assessee should be ignored. The revenues stand that the assessee is ineligible for any adjustments if he provides the set of comparable is not correct because under Rule 10(3) it is the duty of the AO/TPO/DRP to minimise/eliminate the difference which is likely to materially affect the price. It is the settled proposition that working capital adjustment is an adjustment that is required to be made in TNMM. The revenues contention that the differences specified should refer to only (i) the factor of demand and supply; (ii) existence of marketable intangibles i.e. brand name etc; (iii) geographical location and the like is not acceptable. Further, as the difference in the Arms Length Operating Margin of the Comparables before and after making the adjustment for working capital was up to 3.77%, it was material and had to be eliminated.
(***Source:*** *http://www.cainindia.org)*