Government Concerned over Rising Subsidy Burden

Union Finance Minister Pranab Mukherjee has said he is losing sleep over the government's ballooning subsidy bill, a rare expression of candour on a sensitive economic subject from an otherwise restrained finance minister triggering talk the upcoming budget could be harsh on subsidies. "As the finance minister when I think of enormity of the subsidies to be provided, I lose my sleep. There is no doubt," Mukherjee said recently in his address to a conference on Public Distribution System and Storage. It was Mukherjee's second broad hint in recent weeks that the budget for 2012-2013 will be less about tax giveaways and more about fiscal consolidation, an area considered as a major blemish on his ministry's performance and about which it has been facing much criticism. On another occasion recently, Mukherjee told a gathering in Kolkata that industry needs to brace for higher taxes, which has been interpreted to mean that the government could roll back remnants of the 2008-2009 fiscal stimulus by raising excise duty and service taxes. In the winter session of Parliament that ended in December, Mukherjee had said he expected the subsidy bill, pegged at ₹1.4 lakh crore in the budget, to overshoot the target by ₹1 lakh crore.

(***Source:*** *Press Trust of India)*

Companies for No Change in Tax Rates in Budget 2012-2013

Reeling under the impact of global slowdown and a high interest rate regime, India Inc has demanded that tax rates be retained at existing levels even as finance minister Pranab Mukherjee expressed concerns about challenges facing the economy. In their customary pre-Budget meeting with Mukherjee, industry leaders also demanded that healthcare services be kept outside service tax ambit, and privatise coal mines. There are various challenges before us, including keeping inflation and fiscal and revenue deficit to manageable levels... which we all have to address collectively, Mukherjee said in his address to the industry leaders. At the meeting, business leaders suggested that service tax base may be widened with a negative list, besides exempting infrastructure companies and SEZ units from MAT.

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

MPs Want I-T Exemption Limit Hiked to ₹5 Lakh

Ahead of the Budget, some members of a Parliamentary panel scrutinising the Direct Taxes Code (DTC) Bill recently pressed for raising the income tax exemption limit to ₹5 lakh per annum. The Standing Committee on Finance, which met recently has decided to finalise its report soon, enabling Parliament to consider the ambitious reforms in direct tax regime. Some members, they said, "wanted the IT exemption limit to be increased to ₹5 lakh per annum in view of inflation and erosion in purchasing power of rupee." The Government is hoping for approval of the DTC Bill by Parliament in the next fiscal. Pending Parliamentary nod, the government may include some of the provisions of the bill in the Budget 2012-2013. The Committee, in its draft report, has suggested that the income tax exemption threshold be enhanced to ₹3 lakh per annum from ₹1.8 lakh at present. The Bill proposes the limit of ₹2 lakh and provides for revising the tax slabs for all the three categories. Currently income of ₹1.80 to ₹5 lakh attracts 10% tax, ₹5 to ₹8 lakh 20% and above ₹8 lakh, 30%. It has also proposed retaining the corporate tax rate at the existing 30%.

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

Tax Rebate on Three Year Bank FDs Likely

Following concerted pressure from banks, the finance ministry has agreed to consider a proposal to reduce the lock-in period for bank deposit eligible for tax rebate to three years from five years, even though it goes against the spirit of the Direct Tax Code. If this proposal finds it way into next this year's budget, it will make bank fixed deposits, which currently fetch an annual return more than 9%, an attractive savings option for individuals, and bring them on par with equity-linked tax saving schemes of mutual funds and tax-free bonds. "Among the list of demands submitted by the banks and financial institutions in their pre-budget meeting with the Finance Minister, some proposals have been short listed for further deliberations, this is one of them," said a senior finance ministry.

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

Service Tax is Payable on Flats Allotted to Landowner, clarifies Finance Ministry

When the landowner is given flats in lieu of cash, such flats become liable to service tax, the Finance Ministry clarified recently among other things. Suppose, the landowner invites a builder to demolish his bungalow and construct 10 flats thereon, with two flats being allotted to him as sale consideration, the two flats, though for non-cash consideration, would attract service tax immediately on signing of the building agreement. The taxable value would be the amount for which similar flats have been booked by the other buyers on the date of such agreement. It boils down to this: if on the date of the agreement with the builder, there are two buyers who have booked their flats that are similar to those allotted to

the landowner at ₹40 lakh each, the allotment of the two flats to the landowner would be a taxable event, liable to service tax. With abatement allowed being 75% towards the goods used in the construction, which obviously cannot be subjected to service tax, ₹10 lakh would be liabe to service tax, which currently is10.3%. If the flats are not comparable on account of difference in the area, the rate per square foot charged from buyers must be taken into account.
(***Source:*** *http://www.cainindia.org)*

Centre Not to Compensate States against CST Loss

The Government has decided to phase out compensation given to states against Central Sales Tax (CST) loss from 2011-2012, a move that is perceived to queer the pitch for roll out of the proposed Goods and Service Tax (GST). The overall compensation for all state governments was worked out at ₹15,000 crore for 2011-2012. With economic growth projections on the downside amid global macroeconomic uncertainties, the Centre is not keen on straining its resources by doling out compensation to states. The Union finance secretary has informed Sushil Modi, the chairman of the empowered committee of finance ministers on GST that from 2011-2012 onwards, the Centre will not be compensating states against CST loss. This is going to set a wrong signal to all states that have been vehemently demanding full compensation against CST loss. In a way, it is set to pose a huge bottleneck for GST roll out as there was consensus among all states that the Centre would offset CST loss fully till the Integral GST Mechanism is well established, a senior state government official told Business Standard. Of the total CST loss to the tune of ₹12,000 crore incurred by all states, the Centre has disbursed only ₹6,394 crore. It has also categorically stated that the matter is settled for 2010-2011 and the left over loss of states that have not raised base VAT (value added tax) from four to five per cent will not be compensated.
(***Source:*** *http://www.business-standard.com/india/)*

Government eases Telco Merger Rules; Defers Spectrum Pricing

The telecoms ministry will allow mergers and acquisitions between operators that create a combined market share of up to 35% through a "simple and quick" process, the telecoms minister said, easing rules that were seen restricting deals in the sector. The ministry, which approved many proposals as part of a new telecoms policy, has deferred a decision on 2G radio spectrum pricing and on a one-time levy on carriers holding spectrum beyond 6.2 mega hertz following a recent Supreme Court order asking the government to sell spectrum through auction. The policy is likely to be announced in April this year.
(***Source:*** *http://www.financialexpress.com/news)*

Income Tax for Charitable Entities May be Tightened

Non-profit organisations set up for charitable purposes may see a tightening of income tax provisions applicable to them in the coming budget. According to a senior finance ministry official, the department has made significant progress in streamlining its administrative set-up to handle such organisations during this financial year, keeping in mind the provisions of the proposed Direct Taxes Code (DTC). He added that Finance Minister Pranab Mukherjee was expected to either announce steps to take the tax provisions handling non-profits either closer to DTC or their implementation from 2012-2013 itself, rather than waiting till April 2013. DTC is now expected to come in 2013-2014, instead of the earlier deadline of 2012-2013. The finance ministry is expected to push at least those provisions of the new regime in the next financial year which are associated with enhancing compliance and may also help in collecting more money. In the DTC, the income of non-profits whose activities are for public religious purposes are proposed to be exempt. On those set up for charitable purposes, it is proposed to levy a tax on their surplus at the rate of 15%.
(***Source:*** *http://www.hindustantimes.com)*

PAN to be Most Potent Tool against Tax Evasion: Income Tax Department

Come next financial year, the PAN card is likely to become the most potent tool for the Income Tax Department to unearth black money, tax evasion and instances of criminal financing in the country. A recent directive of the Central Board of Direct Taxes (CBDT) to the I-T Dept has asked its officials to launch a special drive against those who have "not furnished their PAN (Permanent Account Number)" while entering into high value transactions. The drive will end on 20th March, eleven days before the current fiscal closes. The measure has been taken on the recommendations of a high-level committee appointed by the CBDT last year to find those taxpayers who have gone missing without paying taxes, pegged at ₹1,01,836 crore at present. The Committee under I-T Director General (Administrative) was set up to examine pending cases on I-T demands under the categories "assesses not traceable" and "non assets/inadequate assets for recovery".
(***Source:*** *http://www.economictimes.com)*