Indirect Tax

UNION BUDGET 2011-2012 | WWW.ECONOMICTIMES.COM

Cenvat, service tax and peak customs duty kept unchanged at 10%

130 new items in the excise net. Lower rate of central excise raised from 4% to 5%.

Duty drawback scheme for service tax paid on goods exported to give a leg up to exporters.

Domestic suppliers of capital goods to big power projects brought on par with foreign ones.

Investment services by life insurers and legal services to individuals to attract service tax.

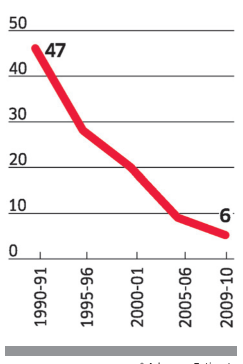
VOYAGE FROM '91

GST: The Biggest Tax Reforms Ever

Indirect tax regime has been reformed dramatically since 1991. A big breakthrough came in 2000 when the shift to a VAT regime began, which alleviated the problem of 'tax on tax'.

Customs duties have fallen steeply...

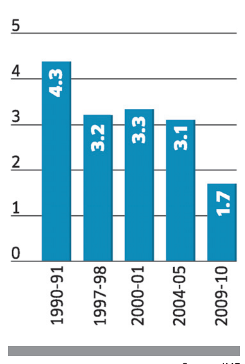
Average customs collection rate in %



* Advance Estimate

...as has incidence of excise duty...

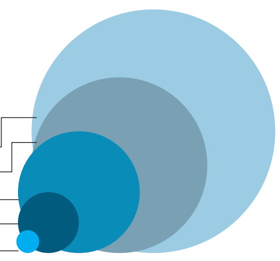
Excise as % of GDP



Source: IMF

...introduction of service tax has boosted revenues...

Number of services in the tax net



2010-11	114
2005-06	80
2002-03	51
1998-99	26
1995-96	3

300 Per cent

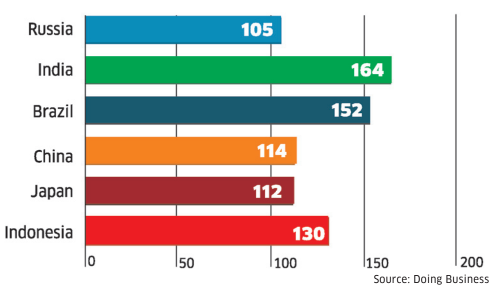
Was the rate of peak customs duty in 1991, it is now down to 10%

... but the system is far from perfect as is evident from plethora of indirect taxes...

CENTRE Excise | Service tax | Cesses | Surcharge | National Calamity & Contingency Duty

STATES VAT | Entry | Purchase | Luxury | Entertainment tax | CST

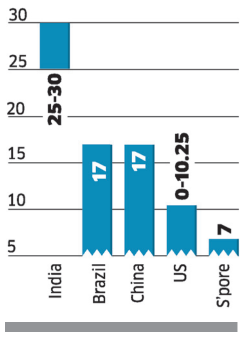
India's rank in paying taxes



Source: Doing Business

...that have increased the tax incidence...

Effective incidence of all central and state taxes in %



...but GST is expected to bring in sweeping reforms...

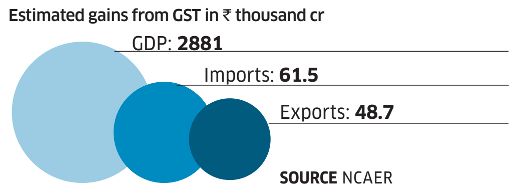
Rates proposed by the centre

GOODS	
2011-12	12% & 20%
2012-13	12% & 18%
2013-14	16%
SERVICES	
2011-12	16%
2012-13	16%
2013-14	16%

No tax on tax as input credit available

...giving a boost to the economy

Estimated gains from GST in ₹ thousand cr



SOURCE NCAER

That Pre-reforms Feeling

While the finance minister is taking steps to bring in more goods and services in the tax net, he continues to pander to pressure groups. He needs to develop a systematic approach to tariffs

OGILVY

Life before liberalisation for the common man was tough. He chased his dreams amid mountains of red tape and Licence Raj controls. Then came 1991, and freedom. The bright flip-flops symbolise ease and comfort, far far away from that dull and drab life of two decades ago. Encountering red tape in the crazy pillar-to-post run is now a distant memory

what it means for india inc

Garment Industry to Take a Hit

Branded readymade garments and textile made-ups now face a mandatory central excise rate of 10%. However, manufacturers can avail credit of tax paid on inputs, capital goods and input services. According to the industry the move will lead to increase in prices of branded retail garments and made-ups as there is no scope for a duty credit for the imposed duty.

A Dampener for Hospitality Sector

Hotel accommodation above ₹1,000 per night will now be charged a 5% service tax. Similarly, air-conditioned restaurants serving liquor will be charged 3% service tax as well. And while the brunt of both these tax changes will ultimately fall on the consumer, industry observers say the new rates could well turn away foreign tourists.

Branded jewellery makers to be hit as excise duty imposed

FMCG, Pharma Firms to Pay More Taxes

Companies such as ITC, Hindustan Unilever and pharma companies will face pressure on the bottomlines because of imposition of excise duty. Packaged food to attract a 1% excise duty. Vaccine makers to also face 1% excise duty sans cenvat credit facility. Medicaments, intravenous fluids and surgical gloves manufacturers to face 5% excise duty.

Not Something the Doctor Ordered

All private air-conditioned hospitals with more than 25 beds will face 5% tax on their services. This will increase cost of health care in most corporate hospital chains. Health-care providers such as Apollo Hospitals, Fortis Healthcare, Manipal Healthcare, Super Religare Laboratories may have to bear the brunt of service tax or pass it on to consumers. Bottomline of these providers is likely to be impacted.

Simplified Laws to Plug Leaks

THE budget has streamlined the indirect taxes structure to increase compliance and make procedures simpler. The government has proposed to adopt taxation rules for services from cash to accrual basis, which will widen the base of service tax. Legislative changes have been proposed to plug revenue leakages and encourage voluntary compliance in service tax. Self-assessment has been introduced in customs duty. Cenvat credit rules streamlined. No service tax audit for individual service providers and proprietors with turnover of up to ₹60 lakh.

ET COMMENT

TK ARUN

Selective Duty Tweaks Harm Farm Output

THE DECISION TO MOVE ahead with an amendment to the Constitution to implement the Goods and Services Tax is welcome, and a gauntlet thrown at the Opposition, who would reveal irresolute commitment to reform, should they balk. That said, the government should actively seek out the Opposition's cooperation. The decision to not increase the excise duty rate is welcome, but not the endless dither on taxing all services except for those specifically excluded through a small negative list. The peak customs duty has remained unchanged at 10% far too long. The selective dropping of duty on some products creates distortions that harm domestic production. What is most unwelcome in the budget is the blithe farewell it bids to any kind of a systems approach to duties and tariffs: these vary from commodity to commodity, from season to season, all at the government's whim. This arbitrariness has strong competition for a Budget Raspberry Award in the form of export taxes now levied on a variety of farm produce and industrial raw materials. The government has chosen to issue notifications suspending the introduced export taxes, but that suspension can again be withdrawn with another notification. At a time when world agri commodity prices are on the rise, Indian farmers deserve to be encouraged to meet that demand and raise their incomes in the process, not hobbled through export restrictions. These export taxes, unannounced except for the one on iron ore, quietly smuggled in through the Finance Bill should be withdrawn.

GST on Track as More Services Come in Net

In Focus

THE BUDGET HAS SET the ground for the roll-out of the much-awaited goods and services tax (GST), by bringing more goods and services in the tax net, and removing exemptions.

The finance minister said the government will introduce a bill to facilitate this new tax regime, expected to start from April 2012.

The GST will replace a host of indirect taxes–central excise and service tax, and various state-level duties such as sales tax and octroi–with a single levy. In line with this new regime, the budget has brought 130 new items under the excise net while the service tax will cover a some new ones including hotel accommodation in excess of ₹1,000 a day and air-conditioned restaurants that serve liquor. However, 240 goods are still excluded; these will be covered when the GST is rolled out.

The budget has also rationalised customs and excise exemptions, limiting them to specific needs such as green activity and much-needed investment in cold-chain infrastructure. "The budget sends a strong signal from the GST perspective and spells out the rules of taxation," says S Madhavan, executive director PwC. The decision to tax services on an accrual basis, when the transaction is complete, rather than when payment is made is also in line with international best practices.

The budget is negative for select sectors such as travel, but experts say from a larger perspective all goods and services need to be brought in the tax net for the rates to be moderate. The good work was, however, undone by some exemptions and reductions. The duty rates on art and antiques, raw pistachio and sanitary napkins were reduced or removed.

Customs-duty reforms also did not move ahead with the FM deciding not to lower the 10% peak rate.

TEAM ET

Well-oiled Tax Way

₹3,38,978 cr INDIRECT TAX COLLECTION (REVISED ESTIMATES FOR 2010-11)

17.35% INCREASE PROJECTED IN THE BUDGET ESTIMATES FOR 2011-12

Populist Measures Trip FM's Bold Steps Towards a Unified Tax Regime

Expert Take

Parthasarathi Shome
Director and Chief Executive, ICRIER

Mid Way

FM shows resolve to widen service tax base.

Failure to include fuel in tax net is bad sign for GST

THERE ARE GOODS THAT CAME as a nice surprise and of course some populist measures that should have been avoided.

The Goods: The main excise duty and service tax rates were maintained at an equal 10%. This makes overall sense for GST plans where it would be crucial to maintain the same rate for goods and services within each of the central and state chains. Note however that a manufacturing level 10% excise rate is not necessarily equivalent to a 10% service tax rate. Nevertheless, the equality of rates is an indicator of FM's good intentions. The attempt to reduce the number of exemptions in particular 130 items of a pure consumption nature is welcome. Even the cushioned garment sector was brought partially into the tax net which was a bold step. Of course 240 items continue to be exempted, including basic food items and fuel. While the former is understandable, the latter should be brought into the tax base, in particular when the GST comes along. On other aspects, FM did reveal a remarkable resolve in extending the service tax base to professional services that had so far been successfully kept out, such as life insurance for investment and legal services provided by businesses. There was also an attempt to rationalise excise and customs duty exemptions and reductions.

The Bads: The FM ignored customs duty reform or alignment with Asean, an idea close to the prime minister's heart for years. He would need to move here in his next Budget, for a 10% peak rate remains high. On GST, that there was not enough mention of its progress was a sign that Centre-state consensus is slow to arrive at. However, this may reveal right caution on FM's part for, whatever GST structure is finally introduced, it must adhere to international norms. FM's seeming willingness and agreement with the states on keeping fuel out of the tax net does not bode well for GST. Some of the excise duty exemptions or reductions such as for art and antiquity, raw pistachio, sanitary napkins smacked of indulgence to elitist or regional pressure groups and borrowed information from countries whose VATs are replete with exemptions. One can only wish that FM would have resisted these temptations or pressures. One matter that I would question is the advisability of the revenue impact of FM's measures, that is, to give away ₹11, 500 crore from income taxes and fetch ₹11, 300 from production taxes. In an ascending economy, it was high time that direct taxes yielded more and that the revenue balance tilted further away from indirect taxes. Finally, Indian budgets fail to champion analysis in the derivation of numbers leave alone their presentation for scrutiny. Comparable countries are farther ahead. We should catch up too.