
BOX

MAJOR CHANGES IN TAX STRUCTURE

Direct Taxes

- No change in rates of corporate and personal income tax. The limit for tax exemption has been raised from the existing Rs.40,000 to Rs.50,000.
- For salary earners of income up to Rs. 1 lakh, ceiling of standard deduction has been raised from Rs.20,000 to Rs.25,000. Salary earners of more than Rs. 5 lakh will not be entitled to the standard deduction. Ceiling of tax free medical reimbursement enhanced from Rs.10,000 to Rs.15,000.
- For expanding the tax base, "One-by-Six" criteria for identifying potential tax assesseees has been proposed. In addition to the previous year's four criteria of: possession of telephone, foreign travel car, house; two more criteria viz., possession of credit card and club membership have been proposed for identifying potential tax assesseees. Persons fulfilling any one of the six will have to file Income-Tax returns. These criteria are extended to 23 more cities; with this the total number of cities now are 35.
- Gift tax after September 30, 1998 will be discontinued.
- To simplify the tax return, a one page tax return called "SARAL" will be introduced for all non-corporate tax payers.
- To reduce litigation in payment of direct and indirect taxes, a new scheme called "SAMADHAN" to be introduced, which would offer waiver of interest, penalty and immunity from prosecution on payment of arrears.
- To encourage house building activity, incentives like tax holiday for approved housing projects, increased deduction against income from house property, exemption to certain specified properties like commercial complexes under the Wealth Tax Act proposed. Tax holiday on housing schemes proposed with 100 per cent deduction for first five years, 30 per cent for next five years,
- To encourage employment, an amount equal to 30 per cent of additional wages paid to new workmen will be allowed as deduction against profit subject to certain conditions.
- 100 per cent tax holiday granted to industrial undertakings located in any industrially backward State or district till the year 2000. For power sectors and refineries, extension up to year 2003. Similar deduction for environment friendly undertakings.
- The benefit of full amortisation to the film industry will be available if the film is released on commercial basis for 90 days instead of the present limit of 180 days.
- Under Section 44 AA of the Income Tax Act, every person carrying on business or profession is required to maintain account books if his income from business exceeds Rs.40,000 or total turnover of Rs.5 lakh. These limits have now been enhanced to Rs.1,20,000 and Rs.10 lakh, respectively.

Indirect Taxes

- With a view to provide a level playing field to domestic producers an additional non-modifiable levy of 8 per cent subsequently reduced to 4 per cent on imports will be imposed. The levy would not apply to crude oil, newsprint, capital goods sector under a special tariff regime or goods which are subject to additional duties of excise in lieu of sales tax, gold and silver imported by passengers and life savings drugs.
 - Customs duty on cold rolled coils of Iron and Steel increased from 25 per cent to 30 per cent, paper and paper board from 20 to 30 per cent. Furthermore, that on stainless steel melting scrap reduced from 10 per cent to 5 per cent, apparel grade raw wool from 25 to 20 per cent, standard newsprint from 10 to 5 per cent and refractory ceramic goods from 40 per cent to 30 per cent.
 - Import duty on gold raised by Rs.30 to Rs.250 per 10 grams,
 - Duty on industrial diamonds reduced from 30 to 20 per cent, floppy disk drives, hard disk drives and CID ROM drives reduced from 12 to 5 per cent.
 - An additional tax at the rate of Re.1 per litre on petrol to be charged with immediate effect which would be utilised for augmenting the corpus of the National Highway Authority of India, This levy is expected to generate an amount of Rs.790 crore in a year.
 - The import duty on crude oil will be reduced from 27 to 22 per cent, which would lead to a revenue loss of Rs.965 crore. This amount would be recouped through an increase in excise duty from 20 to 35 per cent on motor spirits.
 - For small scale sector the exemption limit for excise purposes raised from Rs.30 lakh to Rs, 50 lakh. The clearances between Rs.50 lakh to Rs.100 lakh shall be charged a flat nominal rate of 5 per cent. These proposals would result in a revenue loss of Rs. 300 crore in a year.
 - In order to reduce the multiplicity of rates and ensure convergence towards a mean rate of 18 per cent *ad valorem*, excise duty of 8 per cent imposed on commodities like packaged tea, branded butter, cheese, *ghee*, sewing machines, branded spices, branded edible preparations produced in factories, skimmed milk powder, spectacle lenses and frames. Excise duty on cigarettes increased ranging from 6 to 11 per cent.
 - The scope of service tax widened to include Architects, Interior Decorators, Management Consultants, Chartered Accountants, Cost Accountants, Company Secretaries, Real Estate Agents, Market Research Agencies, Credit Rating Agencies and Private Security Services.
 - Postal tariff on competition postcards and inland letters revised upwards, but no change in rates of postcards and registered newspapers.
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