

The Budget focussed on correcting anomalies in the indirect taxes

Source: *The Financial Express*
July 7, 2009

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A look at the Budget from an indirect tax viewpoint suggests that the focus was to correct teething problems, ambiguity or anomalies in the regulations. Additionally, it also provides a direction for unification of all major indirect taxes in India – the implementation of GST.

Broadly, there are no changes in tax rates though it was widely expected that there would be unification of rates of excise and service tax to prepare for GST. One of the moves of changing excise duty rate of products liable at 4% to 8% (except for a negative list) may be a first step to harmonize excise duty rates. But, keeping some goods liable at 4% could mean that under GST the central levy would also have multiple tax rates.

The commitment to GST has been reiterated, with an indication that it would be a dual tax, levied and administered both by the Central and State governments.

Changes in customs are about setting right inverted duty structures and rationalising duties to encourage domestic manufacture.

In excise, license fee charged for packaged or canned software has been exempted as it is chargeable to service tax under the category of IT Services. This is likely to have a bearing on current litigation and taxability of the fee for the past period.

Service tax has been introduced on some new services such as transport by inland waterways, legal advisory services, cosmetic surgery, etc.

A major change, effective immediately, has been made in the tax jurisdiction of service tax regulations. Hitherto, service tax would apply to the Indian landmass and on designated coordinates within the Exclusive Economic Zone (EEZ) of India. Services provided at a site not within the designated coordinates were exempt from tax. Now installations, structures and vessels in the entire Continental Shelf and EEZ are under the service tax net. This may impact the oil and gas exploration industry, as service tax would now apply on projects involving sites at non-designated coordinates.

The revamp of the composition scheme for works contract will impact installation scopes as well as infrastructure projects. The 4% rate is now sought to be applied on the entire value of the contract including the value of goods used in the works. Though there is room for interpretation as to what constitutes 'the value of all goods used in or in relation to the execution of the works,' the intention of the revenue appears to tap the entire value charged towards such works contract.

The Budget appears only to have set right some of the key issues that needed to be immediately addressed. Some larger issues like detailing the road map to GST, looking at all exemptions afresh and determining their future, aligning taxes into a single rate, did not receive sufficient attention. In the process, though, some changes that could have significant impact (like extending service tax jurisdiction) have been effectuated.