



**THE INDIAN ECONOMY**  
**BUDGET 2000 - 2001**

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We have tried to give, in brief, authentic information. However, this booklet does not amount to rendering any advice or any professional service.

# Preface

## **Exciting New Millennium**

**I**ndia is approaching the 21<sup>st</sup> century with a lot of excitement. Internet, Software, telecom and the convergence mean real economic democracy, a freedom for everyone to tap the global market. There is a special opportunity for Indians who are found to be most suitable for these industries.

At the same time, share market offers the greatest of the risk in the immediate to the mid-term future. When a wave of madness grips the share market (which it does with good regularity), most reasonable people find it difficult to detach themselves from the market. The lesser beings of course join the wave. The risk of impending crash fills the excitement with even more adrenalin.

Mr. Yashwant Sinha has done well to make the convergence opportunity even more accessible for the Indians. He cannot do anything to make the share market see reason. Nobody can do that.

Let us see how the year 2000 unfolds the new century for India and for the world.

The Indian mindset of not paying any taxes is causing strain on the economy. With the reasonable tax rates, is it now the time when all Indians have to pay taxes!

We take opportunity at the time of each budget to air our views on Indian economy and the major trends. These are given in part I. An analysis of the income-tax provisions of the Finance Bill is presented in part II.

We hope, this presentation will be of some interest and useful information to you.

**Rashmin Sanghvi**

**Naresh Ajwani**

## **The Backdrop against which the Budget 2000 was presented**

- The sanctions imposed in India after nuclear tests had not been lifted fully.
- There was an unexpected Kargil war.
- Elections were held during the year.
- The Government could not take major policy decisions for six months due to restrictions imposed by the Election Commission.
- The Orissa Super Cyclone caused heavy losses.
- The Fifth Pay Commission involved additional expenses on account of salaries.
- Oil prices have risen from \$ 10/barrel to \$ 30/barrel.

The import bill is likely to increase from 7 billion dollars to 12 billion dollars. Oil pool deficit has increased.

All this has caused additional expenses of more than Rs. 30,000 crores.

A combination of cost cutting and revenue raising had to be followed.

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Part A

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General Economic  
Trends

## I. Chartered Accountants & Internet

Let us consider the potential of IT boom for Indian Chartered Accountants. The Internet industry has overtaken the whole world. It has made many millionaires out of upstarts. Does it offer the same potential for Indian Chartered Accountants?

1. I am relying on several concepts and presumptions in this article. Some of these are controversial. Some ideas may be liked by Indians. However, foreigners may consider the same as arrogance. I am simply mentioning these concepts, not elaborating these concepts. The reader may draw his own conclusions. I will only develop the theme of this article – potential of IT for the Indian Chartered Accountants.
2. The Internet (together with all the technologies that make it successful) industry is a great leveller. It has brought about economic democracy. It is no longer necessary to be the son of a rich man or to join a large industrial house for becoming successful. Any one with intelligence, hard work, access to Internet and some luck; can go into the Internet industry. This factor, though easily accepted has far more potential than normally appreciated. Let us elaborate.
3. Let us take stock of the present situation from different perspectives.

### 3.1 Monopolies

Some years back, a medium size industrialist was complaining that he cannot set up any industry where he may compete with established Indian giant groups. He said that the common man does not know this. The daily newspapers do not publish this information. However, it is a fact that if a medium sized industrialist becomes an irritation to an existing giant, he can be finished. The giant does not have to appoint mafia for this purpose. He does not need statutory help. He has enough ways to finish off a small competitor.

- 3.2 As luck would have it, shortly after the incident, I was discussing with a director of the then largest industrial house in India. The director complained that he wanted to diversify in the dairy industry. However, Mr. Kurien would not allow any one other than co-operatives to go into the dairy industry.
- 3.3 Businessmen have always created barriers for protecting their own industry and markets; and preventing competitors. Creating monopolistic or oligopolistic market environments for earning premium profits is a well-known method adopted all over history and geography. Coca-cola & Pepsi have well proven strategy of buying out competition and then finishing them off. Gillette acquires competing brands only to close them down. Gillette would like that ultimately all the shaving equipments produced in the world should be controlled by Gillette.

In the modern markets, one who becomes large at the early stage, gets immense benefits in the market. Visa & Master card – the global credit card companies have tremendous benefits because they were the first large credit card companies. Shops & Hotels would associate with them because they are large. Public would hold their credit cards because they are accepted at maximum number of establishments. The credit card industry has no great hidden technology. Yet, when credit cards were started in India, even large Indian banks tied up with one of the two establishments instead of making a success of their own independent credit card.

This is the tremendous advantage of being the first large company in any industry. A large company can keep competition away and can continue to remain large.

This is not to say that competition never succeeds. This is only to say that in the good old industries, upstarts face tremendous difficulties in acquiring a foothold.

#### 4. **India, an underdeveloped country**

Whether we like it or not, let us accept the fact that we are twenty years behind the developed countries in the matter of several technologies. The developed world has a vested interest in keeping us behind. They exploit us as their markets.

If we do not have appropriate strategies, means and will power to bridge the gap. We remain poor.

#### 5. **The big five**

Why are the biggest five firms in the accountancy profession – the biggest?

Because they are the biggest.

This is what we have seen earlier. A big firm remains big because it can buy out competition and can keep at bay those that cannot be bought.

**Note:** Some of the big five partners are my personal friends. I am neither criticising them nor praising them. I am simply making an objective analysis of the facts.

Let us assume an Indian company wants to collaborate with a company in Netherlands & another company in Malaysia. The directors need some commercial & legal information about these countries. Hence they go to their existing auditors. They enquire whether the auditor has any associates or any relationships with good advisers in Netherlands or Malaysia! What will be the answers!



If the existing auditor is one of the Indian auditors, he will say, “Sorry, I have no information about these two countries’ laws and I have no contacts in these two countries.” On the other hand, if the existing auditor is one of the big five, he will say, “Yes, of course. We have our own office in Netherlands & Malaysia. And we can get you all the information.”

This absence of global associations is the biggest factor which is hurting the Indian chartered accountant and which threatens to continue forever.

Is there a way to break this frustrating limitation !

## **6. The Great Leveller**

Internet is the great leveller. An Indian chartered accountant can spend Rs. 50,000/- as capital cost and acquire computer with modem. He can spend further Rs. 10,000/- to 20,000/- per year and maintain Internet connections, web page etc.

Once he is on the Internet, he can have a world of information. He can contact his counterparts in the whole world. He can get the latest information and supply to his clients.

Through the Internet he can develop contacts with like minded professionals all over the world. It is not that he can build professional relations through Internet alone. However, if he can make the preliminaries through the Internet, he can always establish personal relationships wherever necessary by telephone calls and personal visits.

7. Wipro & Infosys both had no problems from either Indian or foreign established monopolies. Purely on the strength of their abilities and of course Indian Government’s support, they have grown. Today they have market capitalisation larger than the market capitalisation of established giants in India. Even though, the established giants have their own companies in the software industry, they could not prevent Wipro & Infosys from growing.

Similar opportunities are available for the Indian chartered accountants. If we master the Internet, no one can prevent us from growing globally.

8. Let us shed humility for a moment. Let us accept the fact that the Indians are genetically intelligent people. When it comes to analysis, science and software; we are great people. Software comes naturally to our children.

This genetic superiority in the software industry is our core strength.

9. It is an established management strategy to leverage one's core strength.

It makes plain sense to leverage our software capabilities.

The middle aged and the old chartered accountants may not be at ease with software and Internet. This is no cause for worry. We have enough youngsters to help us. In any case the next generation is more important than the present generation. Let us create a ground work for the next generation so that they can take over the world.

10. In this light I have following sincere requests to the **Institute of Chartered Accountants**.

10.1 Make Internet & software capabilities a part of our syllabus. The syllabus should be modern and pragmatic. It should constantly be updated as modern technologies keep changing. It should be our endeavour to ensure that every year the new chartered accountant that enters the profession is well equipped to take on the Internet world.

10.2 The Institute must have a large web page data. Place good enough data about all our members on the web page. Let any one from the world visit the Institute's web page and find out the basic information about our members.

10.3 Encourage all existing members into acquiring Internet capabilities – hardware & software.

10.4 Encourage the members in having their own web pages on the Institute's server. This way, the Institute can make it easy for the members to have their web pages and at the same time prevent unethical advertisement.

The Institute may provide transparent guidelines for the web pages. For example, nobody can advertise on the Internet. One cannot claim to have large clients, large turnover or large staff strength. These restrictions will place the large firms and the small firms on the level field.

Just as direct advertising cannot be permitted, intellectual dishonesty should also not be permitted.

At the same time, it must be made known to the world that we are capable to deal with all the professional needs of whether Indian or foreign clients.

This is a delicate task. It needs resources. It will need a will power to accomplish. I am confident that we have all the requisites.

## 11. Competence

I submit that in competence – intelligence, skill, hard work and strategies; Indian chartered accountant is in no way, inferior to any foreign chartered accountant. If anyone claims that the foreign chartered accountant has more competence than the average Indian chartered accountant, I am not prepared to buy that argument.

The only factors the Indian lacks are :

- (a) His syllabus does not equip him to be a truly global professional;
- (b) He does not have exposure to global information; and
- (c) He does not have financial resources.

Syllabus can be revised by the Institute.

Internet gives global exposures.

Internet does not come free. But at the same time, it does not demand impossible resources.

Give these practical resources to the Indian chartered accountant and see that he will prove his superiority in global competence.

## 12. Video / Internet Conferences

The Institute can popularise the Internet facilities by arranging several Video Conferences. A typical Video Conference may work as given below.

12.1 All branches and several chapter offices of the Institute may have Video Conference facilities. All these may be connected by Cable Internet.

12.2 A conference may be organised at say, Delhi in a Video Conference Hall (VCH) which can accommodate 100 participants.

12.3 Two faculty members and one Internet expert are present at the VCH.

12.4 At Bombay, Hyderabad, Chennai and Ahmedabad simultaneous conferences are held. Local members in groups of twenty to fifty are present in those cities' Institute VCHs.

Bombay VCH may have two more faculty members present physically in the hall.

Each centre will have its own IT expert available at the VCHs.

12.5 Simultaneous conferences may be held at Singapore and Hongkong.

Local Professional bodies may join Indian Conference.

Their participants may join in their conference rooms. They have their own faculty members also.

12.6 The Delhi expert can control entire visual display.

Whenever any faculty member from any centre is making a presentation, participants from everywhere can watch & listen to the faculty member. The scene may shift from Delhi to Bombay to Singapore / Hongkong & back to Delhi.

12.7 When any participant from anywhere wants to raise a query, he may indicate his desire. The chairman may permit him to raise the query. If permitted, the camera will shift to the querist. All the participants world over will watch & listen the querist.

12.8 Individual members having VCH facilities in their own offices can join the conference from their own offices.

12.9 If these conferences are globalised, we can present our true worth before the global community; & win them over.

12.10 Technically, it is not possible today. It should become easier when the Cable Internet facilities are available.

Internet Competence is our greatest help in achieving a global status that we truly deserve.

13. The Institute may provide its own server to the members. The members may select Institute's server or any other server. However, every member having a web page may be required to intimate the web page address to the Institute. Wherever, it is found that an existing web page needs modifications to avoid the charge of "advertisement", the Institute can advise the member for making necessary modifications. If the member does not comply, then the disciplinary action may be taken.

14. I am confident, we will achieve our true place in the global market with solid help from our Institute.

## **II. Share Market**

Indian Share Bazar is constituted of, and run by as well as for the Greedy Speculators.

Greedy people do not know principles, fundamentals or logic.

Any market run by them is bound to be crazy.

It is unfortunate that today people judge the Budget's credibility by share market reactions.

It is unfortunate and in fact a risky state of affairs that people judge the economy's health by share market trends.

We hope, some day, people who matter in India will see reason and will start giving much less importance to the BSE SENSEX.

The boom in IT shares is unjustified . The fact that IT industry offers great future for India, does not mean that we can throw away all sound financial principles when it comes to IT shares. However, people in the share market will not listen to logic. For people outside the share market any discussion is irrelevant. Hence we are not giving any details on why we think that the present market wave is madness.

Only submission we may make is, please do not borrow to speculate in IT shares. Leveraging is a two edged sword.

### III. South East Asian Crisis

We have presented papers on the above subject and the same are placed on our Web page for quite some time. Let us submit some additional points on the issue.

1. The crisis enveloped Thailand, Malaysia, Indonesia and Philippines. Granted that these nations' economies were not in an excellent shape. However, **Hongkong** had excellent economy. The foreign exchange reserves of Hongkong and China together were exceeding \$300 billions. Yet, the foreign exchange dealers attacked Hongkong currency. Consistently, for several months Hongkong dollar and Hongkong share market were attacked. There was no economic reason for such an attack.

Was Hongkong's independence from Britain in the year 1997 the real reason for the attack on the Hongkong currency ?

**Can we still say "Market is always right?"** In my view, it has been established beyond any doubt that the markets remain dominated by a few powerful institutions. These institutions are western in their origin. They give an appearance of being honest and clean. They do nothing short of gambling. They can attack and destroy an economy for political reasons.

Chinese currency was also attacked. Armed with sufficient exchange reserves and an independent Government policy, China withstood the attacks. Rumour mongers were proved wrong. Chinese currency was not devalued.

2. The **arm chair experts in India** had started making noises that Indian currency will crash. The NRIs were shouting from the roof top that the rupee will go down to Rs. 45 and eventually Rs. 50 per dollar. They have all been proved wrong. Thanks to expert and capable handling of the situation by the Indian Finance Ministry and the Reserve Bank of India.

International Financial Experts have started for the first time admitting that India and China have proved to be more capable than they expected. Both have survived the currency crisis. Exchange regulation have been helpful. IMF's advises have been proved to be wrong and damaging. Indonesia has suffered more due to IMF advise. Dr. Mahathir Mohammed of Malaysia was the only man who had the courage to reintroduce exchange controls. He has been proved right. The western advisors who were strongly against reintroduction of exchange controls have been proved wrong.

## IV. Derivatives & Options

### 1. FX dealing

Foreign exchange (FX) dealing is supposed to be worth a trillion dollars per day. It is the largest single item of trading. And yet, there is no regulatory mechanism. For commodities trading, there are commodity exchanges. These exchanges are monitored by their regulatory authorities. For securities trading, there is SEC in U.S.A. and similar authorities in all important countries. However, for FX dealing, there is no regulatory authority either in U.S.A., or in Europe. In India, the FX dealing is regulated by RBI because the rupee is not freely convertible. If rupee is made freely convertible, then even RBI will not be able to regulate any trading or gambling in the rupee.

### 2. Hedging

By definition hedging is supposed to be for safety. Let us consider an illustration. Mr. I, an Indian exporter has exported goods worth Rs. 10,00,000. He will receive the export price after six months. In this time, the exchange rate may change. He does not want to take risk. Hence, he will hedge his foreign exchange exposure by selling dollars in the futures market. Here, he is avoiding the exchange risk. The transaction is that of hedging.

For hedging, he will go to a bank. The bank will buy the dollars from Mr. I in the futures market. However, the bank will not keep the exposure with itself. It will sell the same quantity of dollars to some other person in the futures market – probably, an importer who has to pay after six months.

In this case, both, exporter and the importer feel secured by hedging their future exposures. The bank acts as a clearing house and makes profit.

Profits are attractive. So, the bank wants to multiply the hedging transactions. But the total export and import trade of India in goods and services does not exceed \$ 100 billions. This is not sufficient for the FX dealers who want to transact in trillions. So, they go ahead and invent options and derivatives. They further invent several versions of the **options and derivatives**. They write highly impressive descriptions of their FX instruments which nobody understands. When something is impressive, comes from high family and is not understandable, it is attractive. If it offers chances to make money, real big money; then it is a star attraction. So people who want to speculate into something which they don't understand – go to the banks to deal in options and derivatives.

There is nothing strange. Imagine the percentage of people – who are speculating in the share market - and do not understand anything about the companies in whose shares they are speculating. In the same manner, most of the people worldwide who speculate in FX do not understand anything about FX.

Thus, a whole market in options and derivatives is created for the people who are in no need of these instruments. They are neither exporters nor importers. They are plain speculators and gamblers. Banks love them. They want more and more of

them. Because intelligent banks do not want to speculate in the FX markets. They only want the gullible novae rich to speculate. Banks will only earn the margins. When a bank itself starts gambling what happens has been proved by Nick Leeson of the Barings bank. Of course, the Barings bank experience has not prevented many banks and institutions from speculating in the FX markets. There are several large and small banks and institutions who gamble in these markets on a very large scale and there are even more banks that make the public gamble. These banks keep earning the margins. They have a vested interest in preventing any restrictions on their gambling. They will never allow a Government reintroduce foreign exchange regulation. They will brain wash and influence all governments and all opinion makers in different countries into the merits of options and derivatives.

India has been very conservative into permitting options and derivatives. Foreign Institutions have been pushing RBI into throwing open the market. It is good fortune for India that RBI permits only the hedging backed by real business transactions. Derivatives for pure gambling are not permitted.

Think of a young M.B.A. executive drawing salary of Rs. 50,000 per month who has been trained by his Management Institute to think in terms of superlatives about himself. This man is bound to be arrogant.

There is a Sanskrit sloka which roughly says as under:-

यौवनम् धनसंपत्तिः प्रभुत्वम् चाविवेकिता  
एकैकोडपि विनाशाय किमुत्रय चतुष्टयः

“Youth, power, wealth and arrogance each of these four is sufficient to destroy a man. What to say when he has got all the four !”

Large wealth is enough to make a man arrogant and careless about consequences. In today's times, you don't have to own large wealth. You can control large wealth by being a director of a company, or a funds manager in a bank, mutual fund or a financial institution. When you are controlling other people's money you can afford to be even more careless about the consequences.

Now imagine a situation where a young M.B.A. becomes a funds manager. It would be a great surprise if he does not invite disaster.

Further imagine an institution where a lot of these young men with all the four characteristics have come together.

If you have invested in these mutual funds or institutions, is your investment safe?

When a large number of financial institutions, – manned by a large number of young finance executives – are indulging in the potent weapon of hedging in the most potent market of FX dealing; is the Global economy safe?



## V. Why is India Poor ?

In our last year's budget analysis, we had dealt with this issue. This year let us deal with the same issue from a different perspective.

There can be several logical answers for this question. All those answers can be correct. It is a summation of several factors which together make India poor. Let us deal with some of these issues in this paper.

### 1. Indian public is corrupt

We are making this strong statement with a lot of pain and understanding. But the fact has to be told openly. We Indians are fond of criticising the politicians and the bureaucrats. However, look at the common man. We are all corrupt.

#### 1.1 Taxes

How many income tax-payers can honestly say that they are paying their full taxes ?

The percentage of honest tax consultants and honest tax officers is the same.

Imagine a house wife going to a retail store for purchasing some household commodities. If she wants a bill for the same, the normal answer by the retailer can be on the following lines:-

"If you want a bill, there will be a 10% sales tax. If you don't want the bill, the price will be 10% lower." What option will the house wife select? Normally no Indian would pay the sales tax. Not paying taxes in all forms is the norm in India.

#### 1.2 Russian Collapse

Let us analyse the collapse of Russian economy. There, people are suffering from total devastation of the economy. One of the reasons for total collapse is -

**In Russia nobody pays taxes.** So the Government has no revenues. This has resulted in two trends :

- (i) Government has no money to pay salaries. A large number of military soldiers have been retrenched. These people who know nothing except using guns; and who are not finding any jobs; have turned into **mafia**. Today no one is safe in Russia.
- (ii) Government prints notes to make all payments. This has caused **hyper inflation**. Rouble has crashed in a bottom less tube. This has further impoverished the Russians.

When a nation's economy crashes, no one in the country benefits - except - the mafia.

Next time anyone evades tax, he may consider whether he is taking India to a precarious position!

### 1.3 Share Market

Remember the public issue boom of the years 1994 and 1995. The promoters making public issues were cheating the public outright. When a Chartered Accountant made a public issue for a hotel, there were clear allegations against SEBI. The merchant bankers have always supported a public issue in which they can make money. The brokers were making merry by earning hefty commissions on private placements. The promoters were signing agreements on stamp papers for buying back the shares at fixed prices after the public issue. Eminent solicitors were drafting these agreements knowing that these agreements were not enforceable. It was later proved that several public issues were bogus. In how many cases the auditors had warned the public? Bogus share certificates were issued directly from registrars' offices and in one case with the connivance of the chairman of the company. When everybody who mattered was cheating the gullible investors, the post man did not want to remain behind. Large scale thefts of share certificates from the postal department were reported. We had directly requested the chairman of one of the largest courier company. We wanted to send share certificates from Bombay to Calcutta and enquired whether we could give the certificates to his company for delivering at Calcutta ! We would pay the insurance premium and would like the certificates to be delivered safely. The chairman frankly admitted that he cannot ensure safe delivery of share certificates. Any person from the entire chain involved in courier transaction can steal the certificates.

We can give an endless series of illustrations establishing that corruption has become a part of daily Indian life. However, we all know several such cases. Suffice it to say that – it is not only the Indian politician that is corrupt. We, the common Indians are also corrupt.

## 2. Indian public is suffering from the disease of always criticising the Government.

### 2.1 Power of the thought

Our thoughts have great power. We do not realise that something as intangible as a thought can have any power. However, the Upanishads confirm it. We unconsciously use this theory in our daily practice when we say – “I wish you all the best”; or when we seek blessings from a senior.

### 2.2 The “Power of Positive Thinking” has been recognised by some people when a book under the same title has become an eminent success. However, what we do not recognise is equally tremendous power of **negative thinking**.

Today, in India we have tremendous amount of negative thinking. This is apparent in the vast amount of drastic criticisms which we so easily hand out. Every Indian

is always ready to criticise the Government of India. Whatever it does, the Government has to bear criticism. This was so apparent in a **television interview** on 29<sup>th</sup> February. The interviewer asked a Government representative – “You were talking about a tough budget. Whom have you hurt in this budget?” It was apparent that the interviewer was criticising the Government that the budget did not really hurt anybody and hence it was not a tough budget.

The Government spokesman explained that they did not impose any large tax on any one segment of the people. The tax collection drive was thinly spread all over. Pat came the interviewer’s comment – “ Then you have hurt everybody.” It was clear that the interviewer was bent upon criticising the Government any way. If you hurt the people, you are criticised. If you do not hurt the people, you are criticised.

- 2.3 **Maharashtra** Government constructed several “**fly overs**” (bridges at important road crossings). So many people criticised the construction of fly overs in such a harsh manner that anyone would be discouraged from doing anything in future.

It is now our experience that these bridges have actually decongested traffic. People do enjoy the smooth travels. But no one wants to pay the toll taxes. It simply defies logic. If no one pays for such costly infrastructure, how can the infrastructure be developed!

And our criticism is not just an idle talk. People even went to the court of law for preventing Maharashtra Government from (i) constructing the bridges; and (ii) from collecting toll taxes.

Why such intense negative thinking and action! ?

- 2.4 In Gujarat, everybody wants the **Narmada dam**. But one lady Medha Patkar has successfully prevented the dam for last ten years. I have gone to the Garhwal district in North India and talked to common villagers and to Mrs. Sunderlal Bahugana. The common man wants the Tehri dam. The Government wants to construct the dam. People are convinced that Bhakra Nangal dam in Punjab has brought prosperity for Punjab. But one Mr. Bahugana could delay the whole project for 10 years.

In India somehow, the systems work in such a way that anybody can prevent anyone and even the Government from doing anything constructive. But there are very few who go out to help positively a constructive work.

- 2.5 We Indians have a strong belief that all problems are caused by the Government. And it is the responsibility of the Government to solve all the problems. We, individuals, society etc. have no responsibilities. And we have all the rights to criticise, go on strike or file public interest litigation.

Consider an illustration.

Surendra Nagar City in Gujarat is facing acute shortage of water for last several years. A handful of people are trying to alleviate the water shortage. The vast majority does nothing except to observe all the work as “Tamasha”. They are all ready to criticise every move by anyone.

This year, the Government made a crash project at the cost of Rs. 20 crores. The project involved laying down water pipe lines over about 20 kilometres, digging tube wells and supplying water. On completion of the project, the people got good supply of water. However, they had so many criticisms to offer:-

“There is considerable corruption in the Project”.

“The project will never succeed”.

“Even if it succeeds, it will soon die”.

“Soon, the underground water will be emptied and whole project will be a waste”.

I particularly remember Mr. “X” very fondly making all these “**killer statements**”. And I know that in his lifetime, Mr. “X” has never paid any taxes, nor repaid bank loans. He had misused all backward area reliefs, subsidies and actual user licenses.

This is what hurts.

People who are outright corrupt – go on merrily criticising the Government for everything.

Pessimistic, negative thinking not only hurts the sentiment. It stifles all creative thinking and efforts.

Cumulatively when the whole nation thinks negatively, the result is that there is very little progress. The nation remains poor. Geniuses leave the country for more humane societies and we are left with the cynics.

The time is now right for us to take stock of the situation. Over the last ten years, Indian Governments have liberalised the situation considerably. And they are liberalising it further. Our direct tax rates are now better than those prevalent in most countries in the world. Our Government has saved us from the South East Asian crisis. We must stand up and thank the Government for all the good work that it is doing. And we must support it. By paying our taxes and the costs of services. And in many more ways.

We have great intelligence and greater natural resources. If all of us think and act positively and help each other, our economic and social scenes will improve very fast.

## VI. Difference of opinion

In a democracy, difference of opinion is bound to exist. Civilised democracy means that we do not leave our decency when someone expresses a different opinion.

Hindu religion says “तुंढे तुंढे मतिभिन्ना” (Every man will have a different opinion, belief, thinking.) Hindu religion asks us not to judge others.

Jain religion has developed a complete philosophy on “अनेकान्त वाद” or “स्याद वाद”. It in brief means, every man may believe in a different philosophy & every man may be right in his own perspective.

It was a French philosopher who said – “I disagree with you. However, I am prepared to die for your right to say what you want.”.

When we make harsh criticism of the budget, have we forgotten – Civilised democracy & the guiding principles of our religion?

## **VII. Is it fair ?**

1. Do you think, Mr. India (the common man) who has not read the economic survey, nor the receipts and expenditure statements of the budget, has any rights to criticise the budget ? Can Mr. India advise the Finance Minister on what provisions the minister should have made ?

2. When it comes to Income-tax Act or Company Law, a chartered accountant will not express his opinion unless he has studied the provisions in depth. How come the same chartered accountant freely offers his comments on the budget that he has not studied?

3. Mr. India offers all kinds of solutions for India's problems. Most of the solutions are utopian solutions which may probably work in an ideal situation. Mr. India is never bothered about the consequences of the solution that he offers, the competing demands for the same resources, and the hard political realities.

Is it fair for us to offer unconsidered solutions and then criticise the minister for not having implemented the same?!

4. We are convinced that the Government should cut deficit, so the Government must increase taxes and cut subsidies. But whichever proposal for taxing has been made, has been criticised. Is it fair to say – “you may tax anyone but don't tax me”?

5. Why are we ruled by Government officers & not 'served' by Public Servants?!

Because we ourselves have not adopted an independent mental frame.

An independent man is a mature & responsible person who assumes his own rights & responsibilities. We don't want any responsibility. We keep asking for everything from the Government.

We are like collegians. We still ask for everything from the parents. We take no responsibilities; But we want all the independence to do what we want. In fact, at that age, we advise our parents. Well, this is normal at an age.

But at some stage, we have to mature out of that age. We have to take responsibility and pay our taxes and prices for all the services that we use.

6. For 20 years, we have been hearing the same comments on budget – “A pedestrian budget”, “nothing radical,” “no problems solved” etc. We expect the Government to solve everything. And we do not even think that we have any responsibility to contribute anything to solve those problems.

We have seen the stereotype cartoons being repeated – common man with ragged clothes carrying heavy burden – is further loaded by the finance minister who is comfortably enjoying his life.

Can we realise that the common man does not have any idea of the real problems involved! We are not carrying the burden at all. We are not worried about nation's economy. We are only worried about whether our share prices will go up or down. Everyone wants tax concessions for himself & for the company whose shares he is holding. “There is huge deficit? Fine. Tax everyone except me & my company.” This approach cannot work. The fact that almost all newspapers, all television interviewers and all opposition parties take this approach – makes it impossible for anyone to present any radical budget.

We are optimist that  
Better sense will prevail in all sectors.

India will mature, take  
responsibilities & flourish.

There will be more & more people like  
Mr. Narayan Murthy  
who will volunteer to pay tax;  
and become world's richest  
billionaires by pure honest, strategic work.

Part B  

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Finance Bill



## I. Venture Capital [Ss. 10(23FB), 10(33), 115-U]

1.1 Venture Capital has played a vital role in the U.S. It has helped high tech companies which have bright ideas but no capital, to grow successfully. Traditional financial institutions would not finance a risky venture. Venture capitalists took the risks (and of course the rewards). Venture capital has not yet become an accepted way of taking risks in India. Venture capital funds have not been very successful or popular in India. However, the success of Information Technology companies in India has attracted several foreign venture capitalists to India.

It has been reported that even prominent international institutions were not getting approvals from the Finance Ministry for floating new venture capital funds. In this budget, Government is doing away with the Finance Ministry approval.

Scrap the procedure that becomes a bottleneck – is the principle accepted by the Government.

1.2 The new proposals provide for :

- exemption of tax to Venture Capital Companies & Funds.
- exemption to investors receiving dividend from Venture Capital Companies & Funds.
- one time tax of 20% whenever the Venture Capital Company or Fund distributes profits to investors. (There are some exceptions).

1.3 For Venture Capital funding, a Venture Capital Company (VCC), or a Venture Capital Fund (VCF) can be formed. Only registration with SEBI will be required as per its rules & regulations. No other government agency's approval will be required. Non-residents would be governed by FEMA discipline also.

A typical structure could be as under :

Investment by Flow	Investors	Dividends	20% tax payable
	VCC/VCF	Dividends/ Capital Gains	VCC/VCF. No tax by investors.
	Venture Capital Under-taking	Business Profits	Normal taxes & reliefs Income Flow

1.4 Venture Capital Company means a company which is registered under SEBI.

Venture Capital Fund means a fund operating under a trust deed registered under Registration Act, 1988, and under SEBI.

VCC & VCF can raise resources from investors & invest in a Venture Capital Undertaking (VCU).

VCU means an Indian company engaged in the business for providing services, production or manufacture of an article or thing. It is essential that the shares of VCU are not already listed on any stock exchange.

1.5 The existing provision which exempts from income, dividend & long-term capital gains earned by VCC & VCF, will be discontinued. The existing VCC & VCF will be able to avail of reliefs under the new section.

1.6 Under section 10(33), investors receiving dividend distributed by VCC & VCF will be exempt from tax.

However, VCC & VCF will have to pay tax on dividends paid, @ 20% u/s. 115-U.

SEBI can prescribe a time limit within which the income has to be distributed. If the income is not distributed, then tax will be payable on the income which remains undistributed.

Thus, accumulation of funds by VCC & VCF indefinitely without paying any tax is not possible.

## **II. Infrastructure [Ss. 80-IA, 10(23G)]**

- 2.1 Incomes from infrastructure activities have been given tax holidays. Various activities are considered as infrastructure activities. The scope of activities considered as “infrastructure activities” has been expanded continuously over the past few years.

The Budget proposes to include the activities of water treatment, sanitation and sewerage system, and solid waste management – as infrastructure activities.

- 2.2 Profits out of infrastructure activities are tax free for first 5 years. For the next 5 years, 25% of the profits are tax free.

Initially there could be losses. Therefore the assessee can select a continuous period of 10 years referred to above, out of 15 years - from the year in which the infrastructure activity begins to operate. e.g. if the assessee starts operations of an infrastructure activity in year 1, he can choose to avail of relief for 10 consecutive years (5 years for tax holiday and 5 years for relief of 25%), anytime between year 1 and year 15.

- 2.3 Infrastructure capital funds & Infrastructure capital companies have also been given tax exemptions for dividend & long term capital gains. If such companies and funds make investment in enterprises engaged in infrastructure activities, then dividends and long-term capital gains are exempt.
- 2.4 However corresponding benefits to investors in infrastructure capital funds & infrastructure capital companies have not been given.

### **III. Tax incentives to promote housing**

3.1 The population of India is growing at a rate of 2.14% p.a. This poses a serious challenge of meeting the housing needs of the rapidly growing population.

#### **3.2 Housing Projects**

Under the existing provisions of the Income Tax Act, undertakings engaged in developing and constructing housing projects approved by a local authority, are given a tax holiday. This deduction is available only for such projects which are completed before 31.03.2001.

To stimulate construction of new housing projects, the Finance Bill has extended the date of completion of the eligible housing projects by a further period of two years i.e. upto 31.03.2003.

#### **3.3 Housing Loans**

A deduction upto Rs. 75,000 is available for interest on capital borrowed for construction or acquisition of a self-occupied house property, provided:-

- (a) the loan was taken on or after 01.04.99, and
- (b) the construction/acquisition is completed before 31.03.2001.

To encourage individuals to acquire or construct for themselves a residential house - the terminal date for this exemption has been extended from 01.04.2001 to 31.03.2003.

#### **3.4 Repayment of Housing Loans**

Under Section 88, a rebate for an amount upto Rs. 10,000 is allowed towards repayment of principal amount of housing loans taken. This limit is proposed to be increased to Rs. 20,000/-. Thus a rebate of Rs. 4,000 will be available. It is subject to an overall limit of Rs. 14,000/-.

#### **3.5 Capital Gains Relief**

Under Section 54F, capital gains arising on transfer of a long-term capital asset (other than a residential house) is exempt if the assessee invests in a residential house.

However, this deduction was not available to the assessee if:-

- (a) he already owns a residential house on the date of transfer, or
- (b) he purchases/constructs a second house within the stipulated period.

These conditions prevented a large number of assesseees from taking recourse to this exemption provision.

Thus, when a restriction frustrates a beneficial provision - it needs to be done away with. This is partly what the Finance Bill, 2000 has done.

Therefore it is now possible to claim exemption from capital gain by purchasing/constructing a new house even if the assessee already owns one house property.

However, once the assessee buys a house for availing the relief, he cannot:-

- (a) purchase a third house within a period of one year from the date of transfer of the original asset, nor
- (b) construct a third house within a period of three years from the date of transfer of original asset.

#### **IV. Capital Gains relief**

- 4.1 Sections 54EA and 54EB of the Act provided for exemption from levy of capital gains tax, if the net consideration/capital gains were invested in specified securities. These two sections have been deleted by the Finance Bill, 2000.

However, transfers made till 31.03.2000 shall still be eligible to for exemption under sections 54EA and 54EB.

- 4.2 The Bill has introduced a new Section 54EC granting a similar exemption from levy of capital gains tax. This new section has been made effective from 01.04.2001.
- 4.3 The objective for this amendment is to streamline investment into more useful purposes like highway infrastructure, rural and agricultural finance. Thus the notified securities under the new section shall only be bonds issued by National Highway Authority of India and National Bank for Agriculture and Rural Development.
- 4.4 Further, to claim exemption under the Section 54EC only the capital gains has to be reinvested (and not the sale proceeds) within six months of the date of sale. The lock-in period under the new provision will be 5 years. Transfer/conversion of bonds within the lock-in-period results in withdrawal of the tax exemption in the year of such transfer/conversion.
- 4.5 Investments qualifying for this section will not get the benefit of rebate u/s. 88.

## V. Export Incentives

### 5.1 The WTO Impact

World Trade Organisation (WTO) has insisted that no tax incentives should be given for exports. Indian Government has accepted the directive and decided to reduce the tax incentives.

The Honourable Finance Minister has explained that all sectors will have to learn to do business in the open market competition without any subsidies and protection.

### 5.2 Objective for rationalisation of the export incentives

The Honourable Finance Minister has in his budget speech explained that export incentives given by India were treated as export subsidies. Consequently the importing countries were levying countervailing duty and/or anti-dumping duties on our exports. Thus, in essence the taxes which Indian Government exempted, were collected by foreign governments! This cannot be accepted.

5.3 Keeping this background in mind, the Honourable Finance Minister has decided to phase out the export exemptions/concessions over a period of 5 years. Every year, the deduction will be reduced by one-fifth. Similar phasing of exemption has also been done for incomes for services from foreign sources. Thus, the new provisions can be summarised as follows:-

Section	Deduction					
	A.Y. 00-01	A.Y. 01-02	A.Y. 02-03	A.Y. 03-04	A.Y. 04-05	A.Y. 05-06 onwards
80HHB	50	40	30	20	10	NIL
80HHBA	50	40	30	20	10	NIL
80HHC	100	80	60	40	20	NIL
80HHD	50	40	30	20	10	NIL
80HHE	100	80	60	40	20	NIL
80HHF	100	80	60	40	20	NIL
80O	50	40	30	20	10	NIL
80R	75	60	45	30	15	NIL
80RR	75	60	45	30	15	NIL
80RRA	75	60	45	30	15	NIL

## **VI. Business Re-organisation – Clarifications**

- 6.1 In the last budget, reliefs were given & rationalisations were carried out in respect of demergers and slump sale. There were however apparent anomalies. The budget has removed these anomalies. Some important ones are explained below.
- 6.2 In case of a demerger of a foreign company, if there is a transfer of an Indian share, then there is an exemption from capital gains earned by the demerged foreign company. One of the condition to be satisfied is that at least “75% of the shareholders” of demerged company remain shareholders of resulting company.

This condition was an anomaly. In case of Indian companies, it was the value of shares, and not the number of shareholders that is important. The budget now clarifies that the shareholders holding 75% of the “value of shares” of demerged company continue as shareholders of resulting company. The “number of shareholders” is not relevant. The exemption for foreign demerged company is now in line with Indian demerged company.

- 6.3 In case of slump sale, profits are considered as long-term capital gains. For the purpose of calculating the cost of undertaking, it is provided that net worth shall be considered as the cost of the undertaking. Net Worth is explained as net worth as defined under Sick Industrial Companies Act (SICA). This definition of cost of undertaking created difficulties. The net worth concept as explained in SICA, does not apply to non-corporate assessees.

Now the budget provides that net worth shall mean written down value of the block of assets, if the assets are depreciable, or book value of assets if assets are not depreciable. This definition should make computation workable.

## **VII. Advance Rulings [Ss. 245N, 245R]**

- 7.1 Advance rulings have been introduced by Finance Act 1993. Initially only non-residents were permitted to avail of advance rulings. From 1999, specified categories of residents (Public Sector undertakings and residents entering into a transaction with a non-resident) were also allowed to avail of advance rulings. The budget has some rationalisations.
- 7.2 In case of residents, there is a view, that the Authority for Advance Rulings could give decisions arising out of assessment orders only. The Finance bill proposes to allow applications by residents even in case of situations where assessment is not completed. Reference to “assessment order” has been removed. Hence one will not have to wait for the assessment to be over, file an appeal, and then file an application with the Authority.
- 7.3 The Authority for Advance Ruling could not allow any application if the matter was pending before any income tax authority, tribunal or court. The restriction applied only to non-residents & not to residents. Now the budget provides that the applications cannot be allowed in following situations :

In case of	If the matter is pending before
(i) Non-residents &	) Income tax authority, tribunal or court
(ii) Residents entering, or preparing to enter into a transaction with non-resident )	)
(iii) Other Specified residents )	) Court

Thus in case of specified residents, if a matter is pending before an income-tax authority or a tribunal, application for an advance ruling can still be made. Only if a matter is pending with a court, then advance ruling application cannot be made. Whereas non-residents continue to be restricted as earlier.



## VIII. Cyril Pereira

8.1 The Authority for Advance Ruling (AAR) had pronounced a ruling in the case of Mr. Cyril Pereira. The ruling was briefly as under :

- Dubai does not levy income-tax (except on certain types of companies). A person who is resident of Dubai, is therefore not liable to pay tax in Dubai.
- If a resident of Dubai earns income from India, he is liable to tax in India.
- As there is no tax in Dubai, there is no double taxation.
- If there is no double taxation, there cannot be any “relief” from double taxation.
- Therefore the relief under Double Tax Avoidance Treaty between India and UAE cannot be available to a resident of Dubai.
- Therefore, if a resident of Dubai earns capital gains (or any other income) in India, he will be liable to tax in India.

[Please see our web site - [www.rashminsanghvi.com](http://www.rashminsanghvi.com) for a detailed note on Cyril Pereira].

8.2 The ruling reversed an earlier ruling in the matter of Mr. M.A. Rafik given a few years ago. M.A. Rafik’s ruling held that even if a person is not taxable in Dubai, he will get the relief under the DTA. (With due respect to the Authority for Advance Ruling, there were other reasons as to why the ruling was not correct.)

8.3 Cyril Pereira’s ruling caused a disturbance to residents of Dubai. From their point of view they were right.

Initially when the DTA was signed, there were doubts regarding the applicability of the DTA. The reason was that Dubai did not have Income-tax Act applicable to individuals. Only some companies are liable to tax in UAE.

However there was a ruling of M.A. Rafik which ruled that the ruling will apply to residents of Dubai.

Later, when the CBDT chairman visited Dubai, he confirmed to the NRIs in an open meeting that relief will be available as per DTA. Despite this some banks were deducting tax at rates higher than those prescribed in DTA. Therefore two circulars were issued, specifying that the relief should be available as per the DTA.

After the ruling of M.A. Rafik, CBDT chairman’s confirmation and two circulars, people were more or less convinced that the relief as per DTA will be available.

However, then there was this ruling of Cyril Pereira which has reversed the situation. Understandably, the residents of Dubai are upset.

- 8.4 Representations were made that the effect of the advance ruling is that the Indian Government has gone back on its promises.

It is essential to note here that from a legal point of view, the ruling of Cyril Pereira is accepted by people to be correct. Several representations were made to take care of this situation. It was expected that the budget may come out with an amendment in the law to make the DTA applicable.

There is however, no amendment. Hence now it looks like, the residents of Dubai may not be able to get relief under the DTA. However, the fact that the Government promised DTA relief, and now will not give relief points India in a poor light.

- 8.5 This has had impact on Mauritius-based companies. Companies based in Mauritius are entitled to relief from tax on Capital Gains. There is already a ruling in case of TVM Limited, where the authority has mentioned that if the Mauritian company does not pay any tax in Mauritius, it will not be entitled to any benefit under Indo-Mauritian DTA.

Therefore companies who do not pay any tax in Mauritius may not get any relief. Companies formed after June, 1998 are liable to tax @ 15%. Therefore such companies may get relief under the DTA. Even for these companies, the issue of "treaty shopping" remains live. Considering all factors, at present, none of the tax haven (Mauritius, Cyprus, Malta and Switzerland) is good for investing in India. Wherever possible, a direct investment may be better from tax point of view.

## **IX. Minimum Alternate Tax (MAT)**

- 9.1 MAT was first introduced by Finance Act, 1987. Subsequent Finance Acts inserted/amended the provisions and thus made it more complex in its applicability and computation.
- 9.2 Finance Bill, 2000 has aimed at making MAT more simpler in application as well as computation.
- 9.3 Firstly MAT will now apply to almost all zero tax companies. However, export profits u/s. 80HHC, 80HHE and 80HHF are still kept free from MAT.

Entities getting backward area benefit or new industry tax holiday etc. under Sections 80IA, 10A, 10B, 10C; and companies set up for charity, etc. which are exempt under sections 11, 12 and 13, have been brought under the MAT net. However, EOUs and units in FTZs set up before 1.4.2000 shall be out of these new MAT provisions.

- 9.4 MAT now applies if income-tax payable on total income is less than 7.½% of the book profits of the company. Thus the corporate entity shall pay
- normal corporate tax, or
  - MAT @ 7.5% of book profits
- whichever is higher.

This means for MAT purposes the comparison is no longer on income basis but now the comparison is on tax basis.

- 9.5 Profit & Loss a/c for MAT purposes shall now incorporate the same :
- accounting policies
  - accounting standard; and
  - method and rate of depreciation

as has been applied for the Profit and Loss a/c laid at the Annual General Meeting of the company.

- 9.6 The MAT paid under the new provisions of Section 115JB will not be eligible for carry forward and set off against the Income Tax computed under the normal provisions of the Income Tax Act. However, existing credit which was carried forward under Section 115JAA will continue to be available for set off.
- 9.7 Further, the company now also has to furnish a report in the prescribed form by an accountant, certifying that book profits has been computed in accordance with provisions of this section. This report must be furnished along with the Return of Income.
- 9.8 This new section may be able to get corporate tax revenue for the Government with less litigation.

## **X. Relief for individuals**

### **10.1 Rebate U/s. 88 : Housing Loan Repayments:**

#### **(a) Amendments**

U/s. 88 of the Income Tax Act rebate upto Rs. 12,000/- is allowed to Individuals and Hindu undivided families if amounts aggregating to Rs. 60,000/- are paid as premia, contributed to certain funds or invested in certain schemes.

Rebate upto Rs. 2,000/- is allowed if amounts upto or exceeding Rs. 10,000/- are repaid for loans taken from housing loan schemes approved by the Central Government.

The Budget proposes to extend this limit of Rs. 10,000/- to **20,000/-** whereby the amount of rebate available from these scheme will be Rs. 4,000/-.

#### **(b) Technical aspects**

Section 36(1) (viii) was amended by Finance Act, 1999. Long-term finance companies do not require Government approvals. The Finance Bill, 2000 proposes a consequential amendment in Section 88 - which should have been carried out last year.

### **10.2 Section 88B : Senior Citizens**

Under Section 88B rebate upto Rs. 10,000/- is allowed from taxes payable by senior citizens (person above 65 years of age). The limit for rebate is now increased to Rs. 15,000/-.

### **10.3 Section 88C : The Fairer Sex**

A new section 88C is introduced in the Income Tax Act to grant rebate to women below the age of 65 years.

Women who are resident in India and below the age of 65 will get rebate from tax equal to hundred per cent of the tax payable or Rs. 5,000/- whichever is less.

All amendments of Chapter VIII-A will come into effect from 1st April, 2001 and will apply for A.Y. 2001-2002.

### **10.4 Higher Education**

The cost of higher education is very high. Loans are available to students who wish to pursue higher education. Recognising this fact the Bill has enhanced the deduction in respect of repayment of loans (and interest thereon) taken for higher education.

Thus, under the new provisions deduction is available for amounts upto Rs. 40,000 as against the earlier deduction of Rs. 20,000.

## **XI. Dividend Tax**

11.1 Every domestic company/Mutual Fund which intends to distribute its profits/income by way of dividends is liable to pay a special income tax-commonly known as the “dividend tax”.

11.2 Rate of dividend tax

The Finance Bill, 2000 has increased the dividend tax rate from 10% to 20%, made effective from 01.06.2000. Including surcharge @10%, the effective dividend tax has thus increased from 11% to 22%.

11.3 Penal Interest for Defaulting Companies/Mutual Funds

To bring about a uniformity in the penal interest charged under the Income Tax Act - every such company/Mutual Fund which defaults in paying the dividend tax within the prescribed time limit, shall be charged interest @ 1.½% per month (earlier @2%) with effect from 1.6.2000.

11.4 The dividends so received continue to remain exempt in the hands of the shareholders, under Section 10(33).

## **XII. Permanent Account Number**

### **12.1 One by six scheme for PAN**

Under section 139 (1) of the Income Tax Act it is obligatory for certain persons to apply for allotment of a Permanent Account Number (PAN).

**12.2** Finance Act 1997 introduced a scheme whereby if a person falls under any two of the four specified categories of Section 139 (1), he/she had to apply for allotment of a PAN.

The four categories were :

A person:

- (i) Is in occupation of immovable property exceeding specified floor area; or
- (ii) Is an owner or lessee of a motor vehicle; or
- (iii) Is a subscriber to a telephone; or
- (iv) Has incurred expenditure either for himself or for any other person on foreign travel.

This was later modified vide Finance (No. 2) Act, 1998 wherein the scheme was changed such that two new categories were introduced and the assessee had to apply for allotment of PAN if he fell under any one the six categories.

The fifth and sixth new categories which were introduced were :

- (v) Is a holder of a credit card other than an add-on card.
- (vi) Is a member of a club where the entrance fee charged is Rs. 25,000/- or more.

### **12.3 The Finance Bill 2000 now seeks to widen the tax base even further**

It now empowers the Central Government to specify by notification in the official gazette, any class or classes of persons by whom tax is payable under the Income tax act, or any other tax or duty is payable under any other law for the time being in force.

Such persons as specified in the notification will have to apply for allotment of PAN.

This amendment will take effect from 1st June, 2000.

Government has/will also issue a notification covering 79 more cities under this scheme.

# Part C

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## Appendix

### **Tax liability – Illustrations**

We are giving herewith some examples to show the normal amount of income-tax payable. Three different incomes are assumed. Normal and practical investments & consequent tax reliefs are assumed. For the women tax payers, a separate column has been shown.

**It is apparent that even at an income of Rs 5,00,000; a normal tax payer will not pay tax of more than 25% of his income.**

**Table 1**

## Normal Tax Illustration for A.Y. 2001-02

Sr. No	Particulars	Amount (Rs.)	Amount (Rs.)	Amount (Rs.)	In case of Women Employee Amount (Rs.)
1.	<b>Income.</b>				
1.1	Salary Income.	90,000	1,75,000	4,50,000	4,50,000
1.2	Other Income.	10,000	25,000	50,000	50,000
1.3	Total Income.	1,00,000	2,00,000	5,00,000	5,00,000
1.4	Investments made for availing rebate U/s. 88.	10,000	50,000	60,000	60,000
2.	<b>Tax reliefs.</b>				
2.1	Standard deduction from salary.	25,000	20,000	-	-
2.2	Relief U/s. 80L (if other income is from bank and other government securities).	10,000	12,000	12,000	12,000
2.3	Income chargeable to tax under the Income-tax Act. (1.3-2.1-2.2)	65,000	1,68,000	4,88,000	4,88,000
3.	<b>Tax on Income.</b> (From 2.3 above)	2,000	24,400	1,20,400	1,20,400
3.1	Rebate U/s. 88 @ 20% of amounts invested in 1.4.	2,000	10,000	12,000	12,000
3.2	<b>Rebate U/s. 88C.</b> (Only for Women)	-	-	-	5,000
3.3	Net Tax.	-	14,400	1,08,400	1,03,400
3.4	Surcharge @ 15%.	-	2,160	16,260	15,550
3.5	Total tax payable including surcharge.	-	16,560	1,24,660	1,18,910
3.6	<b>Effective Tax Rate.</b>	<b>0%</b>	<b>8.28%</b>	<b>24.93%</b>	<b>23.78%</b>



**Table 2****Tax Rates for Assessment Year 2001 – 2002 (Financial Year ending 31-3-2001)**

This Tables shows at a glance, different tax rates applicable to different persons/  
incomes.

Sr. No.	Particulars	Tax rate	Remarks
1.	<b>For individuals, HUFs, AOP, BOI.</b>		
	Income upto Rs. 50,000.	NIL	
	Income above Rs. 50,000 & upto Rs. 60,000.	10%	
	Above Rs. 60,000 & upto Rs. 1,50,000.	Rs. 1,000 + 20% of the income above Rs. 60,000.	Resident assesseees having income above Rs. 60,000 and under Rs. 1,50,000 will be liable to a surcharge of 10% after allowing rebate.
	Above Rs. 1,50,000.	Rs. 19,000 + 30% of the income above Rs. 1,50,000	Resident assesseees having income above Rs. 1,50,000 will be liable to a surcharge of 15% after allowing rebate.
2.	<b>For Partnership firm.</b>		
	On the total income.	35% (Net of expenses)	Add 10% surcharge. Total 38.5%
3.	<b>For an Indian Company.</b>		
	On the total income.	35% (Net of expenses)	Add 10% surcharge Total 38.5%
4.	<b>For a foreign company.</b>		
4.1	Royalty Income.	Income earned from Government or an India Resident  20% on gross income	No expenses are allowed to be deducted.  Agreement should be approved by the Central Government or should be covered by the industrial policy
4.2	Fees for technical services.	Income earned from Government or an India Resident  20% on gross income	No expenses are allowed to be deducted.  Agreement should be approved by the Central Government or should be covered by the industrial policy.

Continued.....

Table 2 Continued...

4.3	On the balance total income.	48% on net income	No expenses are allowed to be deducted.
5.	<b>In the case of overseas financial organisations.</b>		
	Long term capital gains from the transfer of units purchased in foreign currency.	10%	
6.	<b>Income for a Foreign Institutional Investor (FII).</b>		
6.1	Dividends from Indian companies and Mutual funds.	Nil	Refer to item 12 in this table.
6.2	Short term capital gains arising from transfer of securities.	30%	
6.3	Long term capital gains arising from transfer of securities.	20%	
7.	<b>For any non-resident assessee.</b>		
7.1	Interest on bonds of an Indian company issued under GDR scheme.	10%	
7.2	Long term capital gains from transfer of bonds or shares under a GDR scheme.	10%	
8.	<b>Resident individual employee working in an Indian software company.</b>		
8.1	Dividends other than dividends u/s. 115-O on GDRs issued under employees stock option scheme and purchased in foreign currency.	10%	
8.2	Capital gains from transfer of GDRs referred to in 8.1.	10%	
9.	<b>Income from lotteries, crossword puzzles, races including horse race, card games and other games of any sort or gambling or betting activities.</b>	40%	
10.	<b>Income of non-resident sportsman or sports association.</b>	10%	

Continued....

Table 2 Continued...

<b>11.</b>	<b>Capital Gains.</b>		
11.1	For resident individuals and HUFs.		
	Where the income consists of long term capital gains not being listed securities.	20%	After allowing relief for inflation
	Where the income consists of long term capital gains being listed securities & units of Mutual Funds.	20% after allowing relief for inflation or 10% without inflation relief whichever is beneficial to the assessee..	
11.2	For non-resident individual – Shares, other specified assets purchased in Foreign Exchange  – Other Assets	10%  20%	
11.3	For an Indian company.	20%	
11.4	For a foreign company.	20%	
<b>12.</b>	<b>Dividends.</b>		
12.1	Dividends declared by an Indian company.	Exempt in the hands of the assessee.	
		The company has to pay tax @ 20% on such dividends declared.	
12.	Dividends declared by mutual funds.	Exempted in the hands of the assessee.	
		The mutual fund has to pay tax @ 20% on such dividends declared.	Not applicable to income distributed under unit Scheme 64, and by an open – ended equity oriented fund for three years commencing from 1-4-99.

**Note:** This table is an extract of the rate schedule to the Finance Act. Some rates not commonly applicable are not included here.

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### **Disclaimer**

This is a quick analysis of budget. No decisions may be taken based on this analysis. A decision may involve the full process of considering all relevant laws & facts.

We do not take any responsibility for any actions based on this analysis.

If any expert advice is required, the reader may consult his advisors; or make such independent enquiries as may be necessary.

This presentation contains budget proposals. These may change before the Parliament finally passes the Finance Act, 2000.