



## throwing light

## Finance Bill 2007 - Unplugged

### How the Finance Bill 2007 affects you:

#### AS AN INDIVIDUAL TAX PAYER

- Minimum exemption limit increased by Rs. 10,000.
- A Cess of 1% will be levied for higher education in addition to the existing Education cess of 2%. **SIGNIFICANT**
- Deduction for Mediclaim Premium increased to Rs. 20,000 for Senior Citizens and Rs. 15,000 for others.
- Interest on loans taken for higher education allowable u/s 80E also in respect of spouse and children.
- Banking Cash Transaction Tax will be levied for individual withdrawals in excess of Rs. 50,000.

#### AS A CORPORATE TAX PAYER

- Firms / Companies – Surcharge of 10% applicable only if taxable income exceeds Rs. One crore. However surcharge continues to apply to FBT. **SIGNIFICANT**
- Dividend Distribution Tax increased to 15% (earlier 12.5%) **SIGNIFICANT**
- A Cess of 1% will be levied for higher education in addition to the existing Education cess of 2%.
- Companies to pay a Minimum Alternate Tax (MAT) of 10% on profits of undertakings which are otherwise exempt u/s 10A or 10B i.e. 100% EOU's or units located in SEZs. **SIGNIFICANT**

#### AS AN EMPLOYER / EMPLOYEE

- Stocks or Stock Options granted to employees shall be subject to an FBT based on the fair market value of the shares on the date when the option is exercised. The employee will pay a capital gains tax only on the appreciation in value thereafter.
- No FBT on free samples distributed.
- FBT no longer payable within 15 days of end of quarter. FBT to be paid as per the same schedule as Advance Tax. **SIGNIFICANT**

#### AS A BUSINESSMAN

- Any payments made otherwise than by a/c payee cheque shall be disallowed in totality (earlier 20% of the amount so paid was disallowed u/s 40A(3))
- Profits from hotels and convention centers set up in Delhi and certain adjoining districts eligible for a 5-year tax holiday.

- For units set up in a SEZ after 1<sup>st</sup> April 2006, the benefit u/s 10AA will be available only if the unit is not formed by reconstruction of an existing unit or by use of existing machinery.

#### AS A PROVIDER / RECEIVER OF SERVICES

- Service Tax rate increased to 12.36% (earlier 12.24%).
- No Service Tax for providers having receipts upto 8 lakhs (earlier 4 lakhs).
- New services included - renting of property for commercial purposes; designers of furniture, logos, etc; financial leases; works contracts; marriage halls; computer hardware consulting and software repairs.

#### AS AN INVESTOR

- Sale of Art, Paintings and Sculptures will attract a Capital Gains Tax and will not be treated as personal effects. **SIGNIFICANT**
- Long Term capital Gains can be saved by investing in eligible bonds upto a maximum of Rs. 50 lakhs a year.
- Dividend distributed by Money Market Mutual Funds and Liquid Funds will be subject to a dividend distribution tax of 25%. Income still tax-free for the investor.
- TDS @ 10% will be deducted on Interest from 8% taxable RBI bonds.
- Interest on Bank and Post Office FDs will be subject to TDS if it exceeds Rs. 10000 (earlier Rs. 5000).

#### AS A DEDUCTOR OF TDS

- TDS to be deducted by Individuals and HUFs whose accounts are subject to Tax Audit for all payments made to contractors for work performed unless the expense is personal in nature.
- TDS rate increased to 10% for payments to professionals and for payments of commission and brokerage.
- TDS rate for renting of plant and machinery reduced to 10%.

#### CAVEAT

*The changes proposed by the Finance Bill 2007 will become the law only after the Bill receives the President's assent. Most changes will apply to the accounting year commencing on 1<sup>st</sup> April 2007. The above is merely a gist of the amendments proposed. We recommend that you seek professional advice before implementing them.*