

Budget Impact – 2007

We are pleased to enclose our analysis of the Union Budget on the personal income tax front. We believe that this will enable the reader to be fully aware of the nuances of the Budget.

1. Change in the slab rates:

- ❖ The Finance Minister has increased the basic exemption limit for male assesses from Rs.1,00,000 to Rs.1,10,000, for female assesses from Rs.1,35,000 to Rs.1,45,000 and for senior citizens from Rs.1,85,000 to Rs.1,95,000.
- ❖ The education cess has been increased from 2% to 3% for secondary education will be levied to fulfill the Government's commitment of providing qualitative secondary and higher education.
- ❖ Slab rates are given below:

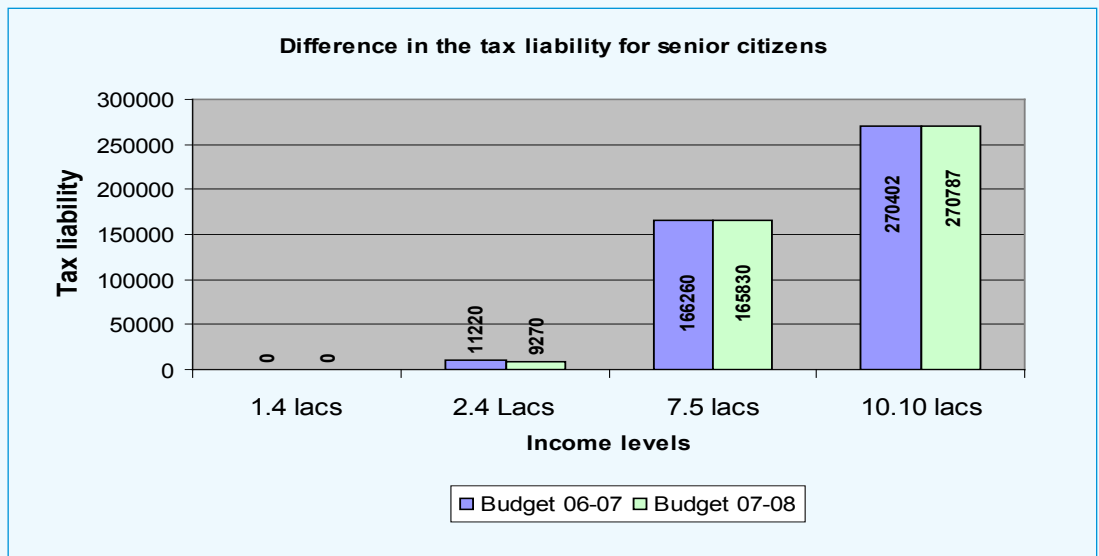
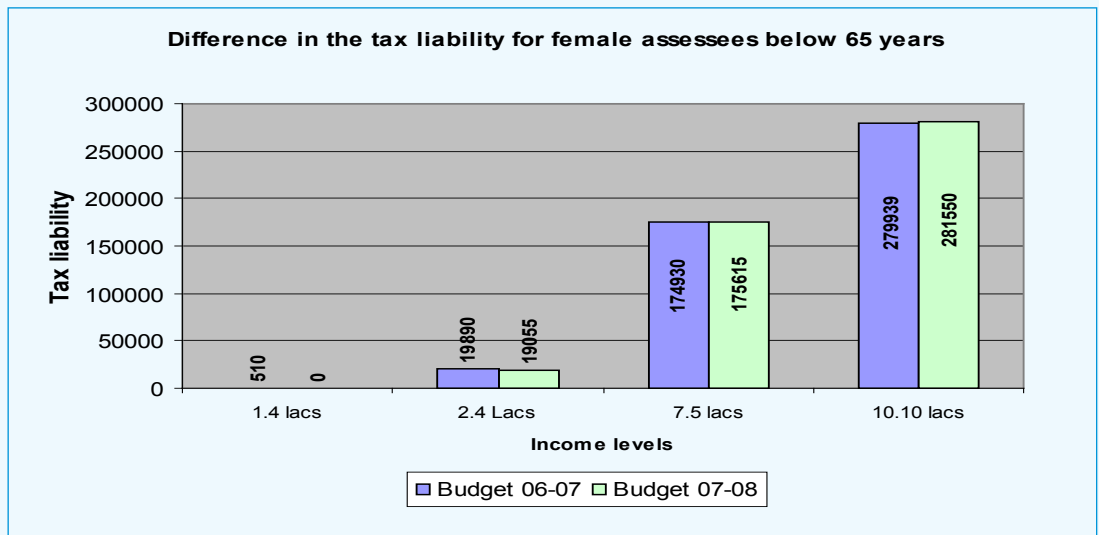
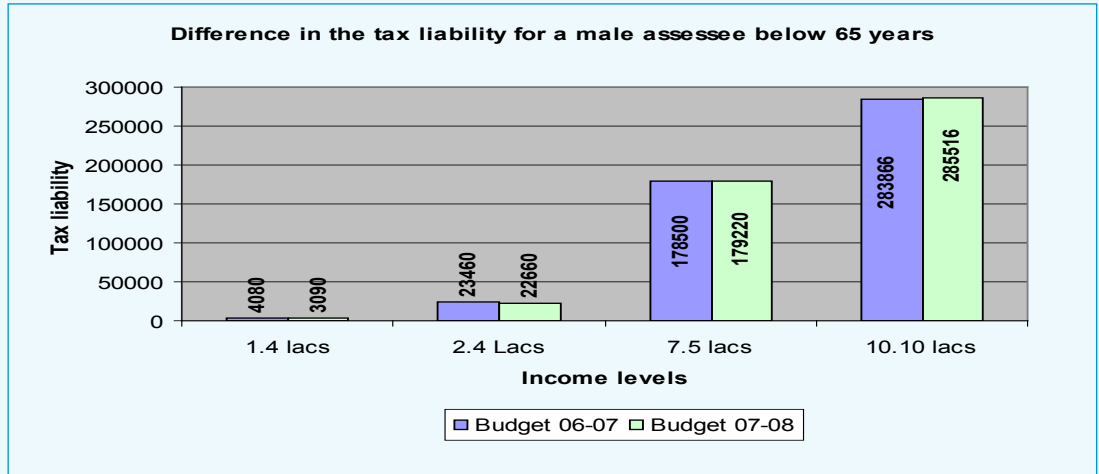
| Rates for male assesses below 65 years | | | |
|--|-----------|---------------------------|-----------|
| Existing Structure | | Revised Structure | |
| Income | Rates (%) | Income | Rates (%) |
| Up to Rs.1,00,000 | Nil | Up to Rs.1,10,000 | Nil |
| Rs.1,00,001 – Rs.1,50,000 | 10% | Rs.1,10,001 – Rs.1,50,000 | 10% |
| Rs.1,50,001 – Rs.2,50,000 | 20% | Rs.1,50,001 – Rs.2,50,000 | 20% |
| > Rs.2,50,001 | 30% | > Rs.2,50,001 | 30% |

| Rates for female assesses below 65 years | | | |
|--|-----------|---------------------------|-----------|
| Existing Structure | | Revised Structure | |
| Income | Rates (%) | Income | Rates (%) |
| Up to Rs.1,35,000 | Nil | Up to Rs.1,45,000 | Nil |
| Rs.1,35,001 – Rs.1,50,000 | 10% | Rs.1,45,001 – Rs.1,50,000 | 10% |
| Rs.1,50,001 – Rs.2,50,000 | 20% | Rs.1,50,001 – Rs.2,50,000 | 20% |
| > Rs.2,50,001 | 30% | > Rs.2,50,001 | 30% |

| Rates for senior citizens - > 65 years | | | |
|--|-----------|---------------------------|-----------|
| Existing Structure | | Revised Structure | |
| Income | Rates (%) | Income | Rates (%) |
| Up to Rs.1,85,000 | Nil | Up to Rs.1,95,000 | Nil |
| Rs.1,85,001 – Rs.2,50,000 | 20% | Rs.1,95,001 – Rs.2,50,000 | 20% |
| > Rs.2,50,001 | 30% | > Rs.2,50,001 | 30% |



Budget Impact – 2007



Analysis: It can be inferred that apart for the entry level the benefit is negligible.

2. Widening the scope of capital gains:

Existing position: The definition of 'capital asset' does not include archaeological collections, drawings, paintings, sculptures, or any work of art as they are considered as 'personal effects'. Thus sale of these will not attract capital gains.

Proposed change: The above mentioned items have been excluded from the definition of 'personal effects', they will be treated as 'capital assets'.

Impact: Gain arising on the sale of archaeological collections, drawings, paintings, sculptures, or any work of art will attract capital gains tax. This will prove to be more beneficial to the assessee as compared to when the same was taxed under the head Income from Other Sources.

3. Individual limit of investing in section 54EC bonds:

Existing position: Recently a limit of Rs.50 lac was fixed for an individual to invest in section 54EC bonds.

Proposed change: The limit of Rs.50 lac is to stay.

Impact: This will ensure that most of the individuals in an equitable get to invest in section 54EC bonds for the purpose saving capital gains tax.

4. NABARD bonds to have tax section 54EC exemption:

Existing position: Only REC bonds and NHAI bonds have section 54EC benefit.

Proposed change: NABARD bonds have been reintroduced to avail tax exemption benefit u/s 54EC, w.e.f 1st April 2008.

Impact: Individuals can now invest in NABARD bonds for claiming exemption from long term capital gains to the extent of Rs.50 lac.

5. Deduction for interest on education loan paid to relatives u/s 80E:

Existing position: Only the individual who has paid interest on education loan can claim a deduction u/s 80E for 8 assessment years.

Proposed change: Section 80E benefit is now extended even to relatives, w.e.f 1st April 2008.

Impact: An individual who is paying interest on education loan taken for his relative can claim a deduction u/s 80E for 8 assessment years. The term 'relative' includes spouse and children.



Budget Impact – 2007

6. Additional benefit u/s 80D

Existing position: An individual can claim a deduction u/s 80D for medical insurance premiums. The deduction is to the extent of Rs.10,000 and Rs.15,000 for senior citizens. This benefit is available only for premium payments by cheque.

Proposed change: The limit for claiming this deduction has been enhanced to Rs.15,000 and Rs.20,000 for senior citizens, w.e.f 1st April 2008. The benefit is available even for premium payments other than by cash.

Impact: An individual can claim an enhanced amount of medical insurance premiums paid for a deduction u/s 80D.

7. TDS on 8% savings (taxable) bonds:

Existing position: There is no TDS on interest payable on 8% savings (taxable) bonds

Proposed change: If interest payable on these bonds exceed Rs.10,000 tax has to be deducted at source, w.e.f 1st April 2008.

Impact: Prevention of tax evasion with respect to interest on 8% savings (taxable) bonds.

8. Increase in Dividend Distribution Tax (DDT):

| Description | Existing position* | Proposed change** |
|---|--------------------|-------------------|
| Corporate DDT - | 14.025% | 16.995% |
| DDT on debt mutual funds : | | |
| ❖ For retail investors | 14.025% | No change |
| ❖ For corporates | 22.44% | No change |
| Liquid and money market mutual funds: | | |
| ❖ For retail investors | 13.025% | 28.325% |
| ❖ For corporates | 22.44% | 28.325% |
| * The rates include surcharge of 10% and education cess of 2% | | |
| **The rates include surcharge 10% and education cess of 3%. | | |

Impact: The finance minister has come down heavily on liquid mutual funds and money market mutual funds. The hike in the rate has made such mutual funds highly unattractive from the income tax point of view.



Budget Impact – 2007

9. Inclusion of ESOPs in FBT:

Existing position: ESOPs are not included as FBT. They are taxed in the hands of the investor. They are not taxed in the hands of the company.

Proposed change: Under the Budget, the finance minister has proposed that ESOPs be included within the ambit of FBT. This means that they will be taxed in the hands of the company. The valuations of ESOP in the hands of the company will be as per the valuation rules as specified by the income tax department.

Impact: ESOPs have been popular tools used by the company to retain its work force. Now that the taxability of ESOPs has shifted to the hands of the companies, most companies will be hesitant in issuing ESOPs due to the additional costs associated with the same.

10. Banking Cash Transaction Tax (BCTT):

Existing position: Taxable banking transactions for BCTT are deposits and withdrawal of cash exceeding Rs.25,000 in a single day.

Proposed change: Taxable banking transactions for BCTT are deposits and withdrawal of cash exceeding Rs.50,000 in a single day.

Impact: The change in the provisions relating to BCTT will help in the detecting the trail of cash withdrawals.

11. Budget Miscellaneous:

This Budget has yielded some “notional” benefits in a number of areas. There were certain aspects which were left untouched. Some of them are:

- (i) The rates of capital gains tax have not been changed. Maintaining status quo on this will prove to be a boon for the capital markets.
- (ii) It was widely expected that E.E.T would come into effect this Budget. But the finance minister did not even once mention E.E.T in his 2 hour long speech. This means that PPF and other insurance plans continue to remain E.E.E.
- (iii) The much hyped securities transactions tax rates have not been changed this Budget.
- (iv) It was expected that the finance minister would increase the limit under section 80C from Rs.1,00,000 to Rs.1,50,000. However, this did not happen. Section 80C has been retained at the previous limit of Rs.1,00,000.

A Final Word: The Union Budget 2007-08 presented by Mr.P.Chidambaram has been a quite low key affair. Laced with humor and coupled with quotes by Thiruvalluvar, the finance minister, has managed to do a skillfull balancing act, keeping in mind the coalition dynamics and the overall reform agenda of the UPA Government.

Budget Impact – 2007

Research Team

Krishnamoorthy S.

email : krishnamoorthy.s@karvy.com

Gayathri Sudha

email : sudha.g@karvy.com

Ph : +91 40 23312454

Ext : 304



For more information call us on : 1800 425 82 83

Disclaimer

The information and views presented in this report are prepared by Karvy Stock Broking Limited. The information contained herein is based on our analysis and upon sources that we consider reliable. We, however, do not vouch for the accuracy or the completeness thereof. This material is for personal information and we are not responsible for any loss incurred based upon it. While acting upon any information or analysis mentioned in this report, investors may please note that neither Karvy nor Karvy Stock Broking nor any person connected with any associate companies of Karvy accepts any liability arising from the use of this information and views mentioned in this document.

This report is intended for a restricted audience and we are not soliciting any action based on it.