

Experts Explain



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No major change in exemption cap for MSMEs

There is no major change in the exemption limit available for small scale sector. The standard rate of Central Excise duty for non-petroleum products has been **enhanced from 10% to 12% ad valorem**. The merit rate of excise duty for non-petroleum goods that hitherto attracted **5% has been increased to 6%**.

The broad changes in tax structure in the area of Indirect taxes in Budget 2012-2013 are as follows:-

CENTRAL EXCISE

There is no major change in the exemption limit available for small scale sector. The standard rate of Central Excise duty for non-petroleum products has been **enhanced from 10% to 12% ad valorem**. The merit rate of excise duty for non-petroleum goods that hitherto attracted **5% has been increased to 6%**. Similarly, the rate of duty of 1% imposed on 130 items in the last Budget **has been increased to 2%**. The exceptions to this increase are:

- (i) Goods of heading no. 2701, i.e. coal;
- (ii) All goods of Chapter 31, other than those clearly not to be used as fertilizers;
- (iii) Articles of jewellery of heading 7113; and
- (iv) Mobile handsets and cellular phones of heading 8517.

The changes have also been made by Notifications in rates of Central Excise Duty applicable for specific items.

CUSTOMS

There is no change in the peak rate of basic customs duty of 10% applicable to non-agricultural goods with few exceptions which are separately discussed. The rates below the peak are also being retained. Some minor changes have been made by Notifications in rates of Customs Duty applicable for specific items.

SERVICE TAX

Rate of Service Tax restored to 12%, same as applicable for levy of Central Excise Duty on Goods

The rate of service tax is being restored to the statutory rate of 12% - same as goods-and Notification No. 8/2009-ST dated February 24, 2009 reducing the rate to 10% has been rescinded effective April 1, 2012.

Consequent changes have also been made in composition rates as follows:-

- (i) For life insurance: 3% for the first year premiums while retaining the rate @ 1.5% for the subsequent years(simultaneously restoring full Cenvat credit);
- (ii) Money changing: raising the existing rates proportionately by 20%;
- (iii) Distributor or selling agent of lotteries: Raising the specified amounts proportionately and suitably rounded off to Rs 7,000 and 11,000;
- (iv) For works contracts from 4% to 4.8%.

3. The rate for Cenvat reversal for exempt services has been revised likewise from 5% to 6% in Rule 6(3) of Cenvat Credit Rules (CCR), 2004.

4. The dual tax structure for air transportation: partly specific, partly ad valorem - is being replaced with a uniform ad-valorem levy at standard rate with an abatement of 60% on all sectors and all classes.

LEVY OF SERVICE TAX ON ALL SERVICES EXCEPT SERVICES IN A NEGATIVE LIST

The significant changes have been proposed in levy of Service Tax. As against the levy of Service Tax on about 119 specified services, all the services are proposed to be brought within Service Tax net except 17 specified services covered in a negative list. This will bring a major change in the area of taxation of Services. It shows Government's inclination to bring Goods and Service Tax at the earliest.

For the detailed analysis of the Budget proposals, the specific Notifications may be referred.