

THE KITTEN IS OUT OF THE BAG

(By S. Jaikumar & G.Natarajan, Advocates, Swamy Associates, Chennai)

Speculations of having an electoral budget is proved to be a fact! The so called Mini Budget has come out with a bang! Even though not a square meal it is nothing short of a quick lunch!! Enough snacks for the political pundits to munch that the entire exercise is nothing but an election gimmick. Be whatever it may, we restrict ourselves to a critical look at the Notifications issued today.

By now, all of you would have burnt your mid night oil to see the list of items on which the customs/excise duty rates have been reduced. A lengthy list indeed!

The excise duty rate on computers has been brought down from 16 % to 8 %. Another measure to boost the IT growth. But, unless the rate of duty on the parts are also brought down, we are afraid whether the real benefit of duty reduction would not reach the ultimate consumers. The manufacture of a computer is nothing but a screw driver technology. As such, the value addition in the "manufacture" of computers is very minimal. Hitherto, as the duty rates of the inputs and the final products were at par, the manufacturers were paying duty in cash, only to the extent of marginal value addition. By retaining the duty rate on parts at 16 %, reduction in the rate of duty on the computers, would only result in accumulation of Cenvat credit in the books of the manufacturers and they will not be in a position to pass on the benefit of duty reduction, to the customers. So, it is felt that the reduction in the duty rates of parts of computers should also have to be simultaneously done, to ensure that the intended benefit reaches the target.

It is an era of falling duty rates of Customs. Normally, around the regular budget day (28th February), the work in customs houses would come to a standstill, expecting a reduction in rate of duty. But, by brining out a sudden reduction of duty rates across the board, the government has left the importers who have filed their Bill of Entries in the past few days, to curse their fate. Those, who have reserved for the day, are sure to cheer up.

New Rules, viz., 16 B and 16 C have been introduced in the Central Excise Rules, 2002. Are they required at all? The facility of sending the semi-finished goods for further processing is all along allowed either under the Cenvat Credit Rules (erstwhile Rule 57 (F) (4) or the present Rule 4 (5) (a)) or under Notification 214/86. The present amendment gives an impression that such a facility was not hitherto available, which may open up a Pandora's box. Let us take it this way. What was hitherto available without a specific provision to this effect, has now been specifically provided for.

Notification 3/2004 CE has been issued to provide for exemption to all items of machinery, etc. for setting up water supply plants and pipes required for this purpose. Similar exemption on a limited scale is already available under S.No.196 A of Notification 6/2002, which should have been suitably amended, instead of issuing a fresh Notification. Now the same subject is covered under two notifications and each have a little bit of overlapping area, which may lead to confusion. Moreover, the word "project" appearing in the Notification 3/2004 should have been "plant" as the Explanation appended to the Notification, also refers only to a water supply plant and not any project, unlike Notification 14/2004 Cus. Dated 08.01.2004.