Tax Hotline

May 15, 2003

FINANCE ACT, 2003 COMES INTO FORCE WITH MINOR CHANGES

The Finance Bill, 2003 ("**Bill**") (the provisions of which were summarized in our legal update dated February 28, 2003) received the Presidential assent on May 13, 2003. However, in the course of debate in the lower and upper house of the Parliament, viz. the Lok Sabha and the Rajya Sabha respectively, certain provisions in the Bill were amended. The Bill has now been enacted as the Finance Act, 2003 ("**Act**").

Provisions relating to rates of taxes, dividend taxation, taxation of non-residents have not undergone any change subsequent to the Bill. However, there have been certain other changes; relevant ones have been discussed below.

CAPITAL GAINS

The Bill proposed to exempt from tax, the long-term capital gains arising from transfer of listed securities purchased between March 1, 2003 and March 1, 2004. However, this exemption has been struck down to a great extent, and now the exemption would be available only in respect of long-term capital gains arising from the sale of "**eligible equity shares**" purchased between March 1, 2003 and March 1, 2004 and held for a period of more than 12 months. For this purpose, "eligible equity shares" are defined to mean equity shares which are:

- constituents of the BSE-500 Index of the Stock Exchange, Mumbai as on March 1, 2003 and the transactions of purchase and sale of such equity shares are entered into on a Recognised Stock Exchange in India ("**RSE**"); or
- allotted through a public issue on or after March 1, 2003 and listed on a RSE in India before March 1, 2004 and the transaction of sale of such shares is entered into on a RSE.

EXTENSION OF SECTION 10A EXEMPTION

As per the erstwhile section 10A of the Income Tax Act, 1961 ("**ITA**") any undertaking set up in a Special Economic Zone ("**SEZ**") after April 1, 2002 for manufacturing or producing articles/ things/ computer software would be eligible to claim an exemption in respect of 100% of its profits derived from the export of such articles/things or computer software for the first 5 years, and 50% for subsequent 2 years.

The Act now provides that an exemption not exceeding 50% of the profits of the undertaking would be available for a further period of 3 years, provided such amount is credited by the undertaking into a "SEZ Re-investment Allowance Reserve Account".

DEDUCTION FOR OFFSHORE BANKING UNITS

The Act has introduced a new section in respect of any branch of a scheduled bank located in a SEZ as an Offshore Banking Unit ("**OBU**") after April 1, 2003. The newly inserted section 80LA states that certain income of the scheduled bank would be eligible for 100% deduction for 3 consecutive years from the year in which it receives a permission to setup such OBU and 50% for the subsequent 2 years. In this regard, income eligible for exemption would be the income of the OBU, received in convertible foreign exchange from business referred to in section 6(1) of the Banking Regulation Act, 1949, with an undertaking located in, or which develops and operates /maintains, a SEZ.

The Act would come into force with effect from April 1, 2003. Further, the increase in the service tax rate from 5% to 8% has also been approved by the Parliament, and effective May 13, 2003, service tax would be levied at the revised rate of 8% on services already within the service tax ambit. However, service tax (at the rate of 8%) would be levied on the new services introduced by the Bill only after the same are notified by the Government.

Research Papers

Medical Device Industry in India
April 28, 2025

Clinical Trials and Biomedical Research in India
April 22, 2025

Structuring Platform Investments in India For Foreign Investors
March 31, 2025

Research Articles

2025 Watchlist: Life Sciences Sector India
April 04, 2025

Re-Evaluating Press Note 3 Of 2020: Should India's Land Borders Still Define Foreign Investment Boundaries?
February 04, 2025

INDIA 2025: The Emerging Powerhouse for Private Equity and M&A Deals
January 15, 2025

Audio

CCI's Deal Value Test
February 22, 2025

Securities Market Regulator's Continued Quest Against "Unfiltered" Financial Advice
December 18, 2024

Digital Lending - Part 1 - What's New with NBFC P2Ps
November 19, 2024

NDA Connect

Connect with us at events, conferences and seminars.

NDA Hotline

Click here to view Hotline archives.

Video

Vyapak Desai speaking on the danger of deepfakes | Legally Speaking with Tarun Nangia | NewsX

April 01, 2025

Vaibhav Parikh, Partner, Nishith Desai Associate on Tech, M&A, and Ease of Doing Business

March 19, 2025

SIAC 2025 Rules: Key changes & Implications

February 18, 2025