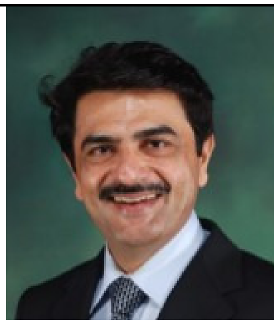
FSIA E-circular dt Monday, January 02, 2012		
 Rajive Chawla President, FSIA		 Sangeet Kr Gupta Hon. Consultant, FSIA

First of All, we at FSIA, wish all members, a,

Now, after the new year celebrations are over, and the after the Rainy 1st Jan 2012, we come back to offices today on 2.1.2012, let us have a quick look on the things that happened / or are going to happen soon.

Service Tax levy
on "Railway Freight"

10% service tax on railway freight from 1st April 2012*

Till now the road transport, Air Transport etc were subject to Service Tax. But the Railways were always tax free. Not any more.. The New Year brings into place the new levy. The government has decided to impose a 10% service tax on movement of freight through railways from January 1. The tax will impact prices of coal, steel, iron ore and cement.

Obviously the Final customer will pay more. Now, can we take modvat of this ? Answer is YES. This is a modvatable service Tax.

*Note : The effective date was earlier declared to be 1.1.2012, later it was shifted to 1.4.2012

Foreigners "individuals" can buy shares on Indian Stock Markets

Till now, only Registered FII and NRI's could invest in Indian Stock market. These were usually large Provident Funds, Banks, Private Equity Funds and Mutual Funds. But, now, as a change in policy, Indian government will allow overseas individual investors to directly buy local equities.

Benefits expected= might boost capital inflows and reduce volatility in the stock market.

The new rule from the central bank and stock market regulator is expected to take effect by Jan. 15, the government said in an e-mailed statement today. Currently, individual investors can only invest in Indian shares through so-called participatory notes.

The new rule will "widen the class of investors, attract more foreign funds, and reduce market volatility," as well as deepen the Indian capital market, the government said in its statement. Foreign investors (FII's) pulled out $495.5 million from India's equities last year, compared with a record inflow of $29.4 billion in 2010, data from the exchange regulator show. And that is a part of reason of fall in Indian stock markets.

Indian Stock Markets fell 35% in last one year

This was a big drop. From the days of 20000 to 23000 BSE sensex, we are today at 15000-odd figures. What will happen ? . Stock markets are like that. They always were.

FSIA brings to you the chart above.

Who is no.1 in Indian Stock Markets ?
Reliance Industries ?????? NO

Tata Consultancy Services (TCS), India's top software exporter, on 30.12.2011 became the country's most valued company by elbowing out the Mukesh Ambani-led Reliance Industries Ltd (RIL) from the top spot. As of on Friday's close, the total market capitalisation of TCS stood at Rs 2,27,280 crore, while that of RIL was Rs 2,26, 898 crore. RIL shares fell 2.81 per cent to Rs 692.90 on the Bombay Stock Exchange, the lowest close since March 2009. In comparison, TCS shares lost only 0.35 per cent to close at Rs 1,161.25. RIL has remained the country's most valued firm for many years, except for a brief period in August this year when it first lost its top spot to state-run Coal India, then regained it and was again overtaken by another state-run firm, ONGC.

Market price trend chart for Reliance Industries ? And during last one year, Reliance Shares went tumbling as shown in chart above.

And the 5 year chart was as under :

chart above.

So, moral of the story. Long term, you might win, but in Short term any investment is "Risky". And 2nd Moral of the story – No single share can guarantee you, only a "upward success", all shares can go up and can go down.

What if Petrol is brought under GST ?

If this happens, it will be great. Since we will be able to take CENVAT credit of it in our manufacturing processes.

The 115th constitutional amendment Bill introduced in Parliament to give effect to the introduction of the goods and service tax (GST) in the country keeps petroleum products comprising crude, diesel, petrol, natural gas and aviation turbine fuel as well as alcoholic liquor out of the purview of the proposed GST. These commodities are outside the purview of the value added tax (VAT) even at present and are taxed under the general sales tax regime.

Traditionally, petroleum products as generic inputs have been used as a proxy for taxing other commodities due to a weak tax collection mechanism and poor compliance. These, along with alcoholic liquor, treated as a sin good have been subjected to a high rate of tax. These commodities roughly contribute about a half of the consumption tax revenues of the states and attract a much higher rate of tax than VAT.

However, keeping them out of the purview of the GST will lead to two distinct tax regimes that would operate as separate silos. The inputs that go into the manufacture of these commodities would be taxed under the GST, the credit for which cannot be claimed under the statute of sales tax. This will lead to cascading, which is imposing a tax on a tax, the very problem that the GST seeks to set right.

Apart from the higher incidence of tax, the industry would also face the problem of maintaining a complex set of accounts across both the tax regimes making it cumbersome. More importantly, this would perpetuate the continuance of the central sales tax (CST), which is a perverse tax levied at the place of origin, which goes against the grain of GST that is a pure destination-based tax.

An elegant solution would be to bring these commodities under the ambit of GST, but allow for a provision that enables the states to impose an additional levy on these products. By bringing these commodities under the ambit of GST, it would be possible for the industry to seamlessly claim credit on the taxes already paid on the inputs to both the Centre and the states, thus avoiding a cascading of taxes and making the accounting process linear and simple.

By having an enabling provision to allow the states to impose an additional levy on these commodities, the powers of the states to tax these products will not be impinged upon and the revenue that the states have been getting from these commodities can be protected.

In the case of petroleum products, if the rate leviable under the state goods and services tax (SGST) is, say, 8% and the current levy of tax by the state, which includes sales tax and cess is, say, 30% on petrol, the states can allow for the levy of 8% on SGST that would allow the industry to claim input tax credit and collect the remaining 22% of the tax as an additional levy.

For queries, suggestions and feedback , you can e-mail us at :

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