

ConneKt.....

SUMMER SPLASH
FEATURES

News Room

(Major news highlights of the month)

Value Creation

(NMA's value addition)

Corporate Watch

(Financial and Statistical review of select listed Companies)

Notifications and Pronouncements

(Gist of important case laws)

Due dates

(Your monthly compliance calendar)

Business Gags

(Dash of laughter for a refreshing summer cocktail)

NEWS ROOM

Cognizant tie up with Dutch IT Company

IT major Cognizant has formed a strategic alliance with Dutch IT company Ordina to offer global delivery solutions for latter's top 40 customers in areas like financial services, public, industrial and telecom.

Sebi-listed VCFs allowed to invest in foreign start-ups

In a notification issued on April 30, 2007, RBI decided to permit Sebi-registered Indian VCFs to invest in equity and equity-linked instruments of offshore venture capital undertakings subject to an overall limit of \$500 million. Accordingly, Sebi-registered domestic VCFs wanting to invest in offshore VCFs may approach the regulator for prior approval.

Idea Cellular and Nokia Siemens sign 500 mn dollar deal

Idea Cellular and Nokia Siemens signed a 500-million-dollar GSM network expansion contract. As per the deal, Nokia Siemens will expand Idea Cellular's network in Delhi, Haryana, Eastern and Western Uttar Pradesh, Andhra Pradesh and Kerala

Mallya closes in on \$1.3-b W&M buy

Vijay Mallya ,the UB Group chairman has snapped up one of the world's largest independent bulk Scotch suppliers Whyte & Mackay headquarters in Glasgow for £595 million (Rs 4,784 crore),sewing up perhaps the most significant deal in his 24 years at the helm of the alcoholic beverage giant. Mallya's United Spirits, India's largest liquor firm and the flagship of his UB Group, will now own all the shares held by W&M Chairman Vivian Immerman and other investors

Jet takes over Air Sahara for Rs 400 cr

Jet Airways, India's largest airline by market share, took over Air Sahara operations across the country.

REL to build mega power plant in Haryana

The Anil Ambani-owned Reliance Energy Ltd's engineering, procurement and construction arm is all set to build a 1,200 MW thermal power plant near Barwala in Hisar district of Haryana. The largest of the 3,000 MW projects of the Haryana government in the pipeline, the power plant would be set up by Haryana Power Generation Corporation Ltd. (HPGCL) within the next four years, according to a company statement. This Rs 38-billion project gets the first mega project status in northern India under the government's mega project policy.

ABN Amro, Barclays banks announce merger

Dutch bank ABN Amro and Britain's Barclays announced their plans to merge, creating Europe's second largest bank and the fifth worldwide.

Infosys, TV18 to set up media outsourcing firm

Infosys BPO will launch an outsourcing firm to provide services in collaboration with TV18 Group to media and entertainment companies globally. The proposed entity, to be called Source 18, will offer services including digital archiving and metatagging, re-purposing content, work flow charting, re-editing, transcoding, quality control as well as media process outsourcing

VALUE CREATION

Service tax on architectural and construction activities

The real estate market has been on a growth and expansion phase ever since 2002, after it emerged from a phase of consolidation since the correction of the late 1990s. In the years of resurgence, the transformation of Indian real estate has been more or less driven by the growth of the economy and business, growing incomes and aspirations as well as enthusiastic supply response. The said market has also changed over the years from few high quality projects in the 90's to plethora of high quality projects in the fringe cities. The growth in the sector has been driven both by end users and investors on the back of attractive mortgage rates and tax incentives. There has also been a huge increase in the number of second home buyers. Amongst all these developments, the government has ensured its share of revenue from this growing sector by introducing service tax on architectural services w.e.f 1st October 1998 and on construction services w.e.f 1st April 2005. The end user as usual is bearing the brunt of increase in demand supply difference and the introduction of indirect taxes, as the same is being transferred from the constructor/ architect to the end user. Let's have a brief look at the applicability of taxes and the rates to these sectors.

ARCHITECT SERVICES

The architectural services were introduced by a special notification w.e.f. 1st October 1998. The Finance Act defines an architect to be a person providing advice as per the requirement of the client:

- At the preliminary stage of initial sketches of building
- Specification and drawing of the plan
- Approval of the drawing from the authorities
- Supervision at the each stage of construction
- The above definition clearly demarks the Architectural Services from Construction Services.

Value of service liable to tax

Gross amount charged by architect from client for services rendered in his professional capacity is liable to service tax. Gross amount here would mean bill amount and reimbursement if any of expenses directly incurred in relation to work. The finance Act 2006 has also included **services in consideration other than money** in the gross amount.

Certain Frequently Asked Questions in relation to taxation of Architectural Services are:

Is service tax leviable only on the value of service related to the architecture

In case architect is also supplying material then he/she has to specify material and professional service cost separately otherwise service tax is leviable on full bill amount.

When does the Service tax liability arise if advance is received?

If advance is received before starting of the activity same is not liable to service tax at that point of time. But if bill is raised after or during the rendering of service such advance would be taxable.

What is the liability of service tax in case of turnkey projects?

In case of turnkey projects service tax is payable only on service relating to the architecture but service cost has to be mentioned separately in the contract.

COMMERCIAL & INDUSTRIAL CONSTRUCTION ACTIVITY

After the introduction of service tax on architectural services, the government realized that they are losing huge quantum of revenue as construction related services were out of the net. Thus the introduction of service tax on construction related services was inevitable. The introduction was brought into effect from 1st April 2005.

Construction service for tax purposes would include:

- Construction of new building, civil structure including any part of it.
- Repair, alteration or restoration of, or similar services.
- Services which are for destruction /demolishment and restoration of building.

VALUE CREATION

Service tax on architectural and construction activities

Value of service liable to tax

Value on which service tax is leviable can be determined in two manners.

- Contractor is liable to pay service tax on the gross amount charged and can claim input credit on material and services used in that contract; else
- Service tax is calculated at the exempted rate (67% of service tax is exempt) on the gross value of the contract. But for availing exemption neither material value can be reduced from neither gross value nor input credit can be taken.

Certain Frequently Asked Questions for Service Tax on construction activities are:

If contractor subcontracts work, whether sub contractor also liable to pay service tax?

Service provided by the subcontractor is also liable to service tax except service provided by the labourer not having business establishment.

Are all types of construction activities taxable?

Construction of building for educational, religious, health purpose are not taxable.

What should be the service tax if an architect takes the project as a turnkey project?

In this case the service tax is calculated on the exempted rate of 4% + Education Cess.

In case of a turnkey project, is there any other tax applicable?

Such project would be considered as works contract transaction as well. It will be taxable as WCT to the extent of material involved in the composite contract.

The government has found its golden goose at the cost of the end users who end up paying lot more in form of taxes. Some of the intending property buyers have even moved to the leasing route to avoid such huge cash outflow. But as always the finance ministry is one step ahead to ensure more tax outflow. In the recent budget provision of service tax on leased out property has been introduced which would mean higher outflows for leased properties also.

The writing on the wall is clear, that '**TAX ALL THE TRANSACTIONS**' if it is a sale of goods, charge sales tax/ VAT and in case of service, service tax.

CORPORATE WATCH

Bajaj Hindusthan Ltd.

Bajaj Hindusthan Limited (BHL) was incorporated on 23rd November, 1931 under the name - The Hindusthan Sugar Mills Limited - on the initiative of Shri Jamnalal Bajaj - a businessman, confidante, disciple and adopted 5th son of Mahatma Gandhi. In 1967, a new Company - Sharda Sugar & Industries Limited - was established as a subsidiary of Hindusthan Sugar Mills Limited. In 1988, The Hindusthan Sugar Mills Limited was renamed as Bajaj Hindusthan Limited and shortly thereafter-in 1990, Sharda Sugar & Industries Limited was amalgamated with Bajaj Hindusthan Limited. The company has now set up a subsidiary in Brazil, evaluating options towards acquiring an existing sugar Plant/ setting up a Greenfield sugar manufacturing unit in the world's largest sugar producing country. This initiative will give BHL an important foothold in global markets. W.e.f. 8 May 2004 they subdivided their Rs.10 face value shares into a face value of Re.1/- per share

Chairman of the Company	Shishir Bajaj
Face Value of the Share	Rs. 1.00 each
52 week High	Rs. 569.90
52 week Low	Rs. 132.00

(Amount in Rs. Crore)

Particulars	Mar '06	Dec '06	Mar '07
Sales Turnover	394.92	286.64	513.92
Other Income	4.88	7.83	13.84
Total Income	399.80	294.47	527.76
Total Expenses	279.06	256.96	476.22
Operating profit	115.86	29.68	37.70
Gross Profit	120.74	37.51	51.54
Interest	0.04	-5.12	14.97
PBDT	120.70	42.63	36.57
Depreciation	23.18	21.49	35.29
PBT	97.52	21.14	1.28
Tax	33.01	3.86	-2.38
Net Profit	64.51	17.28	3.66
Earnings Per Share	5.03	1.22	0.26
Equity	14.06	14.14	14.14
Face Value	1.00	1.00	1.00

CORPORATE WATCH

Details as on 15th May 2007

Top 3 Shareholdings in the Company

Total Promoters	37.71
Total Foreign	33.37
Total Public & Others	14.54

Top 3 Mutual Fund Holding

Scheme Name	No. of Shares
SBI Blue Chip Fund (G)	769,044
Magnum Multicap Fund (G)	379,626
Sundaram Rural India Fund (G)	260,363

Comparative Data of Bajaj Hindhustan Ltd. with its Peer Companies

Company Name	Last Traded Price	EPS (TTM)	PE Ratio	Face Value of Share	Market Capitalization
Bajaj Hindustan	168.00	8.70	20.04	1.00	2,465.31
Balrampur Chini	72.90	5.51	13.23	1.00	1,809.38
Triveni Engg	54.85	3.51	15.63	1.00	1,414.58
EID Parry	117.90	4.33	27.33	2.00	1,052.26

NOTIFICATIONS AND PRONOUNCEMENTS

Case Laws

Lending Profits Of One Co To Another Group Co Constitutes Deemed Dividend: SC

In a significant ruling, the Supreme Court has said that the funds available with a company in the form of profits should ordinarily be distributed among its shareholders. But if the controlling group of the company refuses to distribute the accumulated profits as dividends to shareholders and decides to advance the profits by way of loan to other concerns for the benefit of its shareholders, it would come under the purview of deemed dividend and will be taxable.

The Supreme Court has held that a claim made otherwise than in the return or a revised return, simply by way of a letter for claim cannot be entertained by the assessing authority.

Taxation of foreign enterprise

Business profits of foreign enterprises are taxed in India only if the said foreign enterprise has a Permanent Establishment (PE) in India and the profits are attributable to that PE. If the foreign enterprise has no PE, business profits cannot be taxed.

Immunity to person dealing with Companies

Persons dealing with the company are entitled to presume that the directors are in charge, whether any restrictions are placed on their powers is for the directors to establish

Finance Bill Enacted

The Finance Bill has been enacted as Finance Act 2007 from 11.05.2007. By virtue of this, the secondary higher education cess of 3% becomes applicable from the said date

Revised guidelines for mobilizing foreign investment through issue of preference shares

- Foreign investment coming in as fully convertible preference shares to be considered as a part of share capital; and included in calculating foreign equity for the purposes of determining sectoral caps

- Foreign investment coming in as non-convertible, optionally convertible or partially convertible preference shares to be considered as a part of debt; and subject to external commercial borrowing (ECB) guidelines (including end use restrictions) and caps.

- Any foreign investment as non-convertible or optionally convertible or partially convertible preference shares as on and up to April 30, 2007 would continue to be outside the sectoral cap till their current maturity

OOPS.... We missed it..

In the April 2007 issue of "ConneKt" ,under 'Value Creation' we put the last date of deposit of service tax as 25th of the month following the quarter end instead of 5th. Readers are requested to take a note of the same.

DUE DATES

Due Date	Assessee Covered	Obligation / Event
PROVIDENT FUND AND ESI		
25 th May	PF Applicable Units	EPF Monthly Return.
20 th June	PF Applicable Units	EPF Deposit
21 st June	ESI Applicable Units	ESI Deposits
INDIRECT TAX		
25 th May	DVAT Assessee	Electronic return for those who have to file monthly return and those who have been prescribed to file monthly returns under DVAT
28 th May	DVAT Assessee	DVAT return for those assesses who are filing quarterly returns
5 th June	Service Tax Assessee	In respect of payment received towards the value of taxable services in May 2007 for Corporate Assessee.
DIRECT TAX		
28 th May	Income Tax Assessee	Issue TDS certificate for tax deduction in previous month
7 th June	Income Tax Assessee	Deposit of TDS/TCS deducted during the month of May 2007.

BUSINESS GAGS

The resume bloopers

These are taken from real resumes and cover letters and were printed in Fortune Magazine:

- 1. I demand a salary commensurate with my extensive experience.*
- 2. Reason for leaving last job: maturity leave.*
- 3. Wholly responsible for two (2) failed financial institutions.*
- 4. Its best for employers that I do not work with people.*
- 5. Lets meet, so you can ooh and aah over my experience.*
- 6. You will want me to be Head Honcho in no time.*
- 7. Am a perfectionist and rarely if ever forget details.*
- 8. I was working for my mom until she decided to move.*
- 9. Failed bar exam with relatively high grades.*
- 10. Marital status: single. Unmarried. Unengaged. Uninvolved. No Commitments.*
- 11. I have an excellent track record, although I am not a horse.*
- 12. I am loyal to my employer at all costs. Please feel free to respond to my resume on my office voice mail.*
- 13. I have become completely paranoid, trusting completely no one and absolutely nothing.*
- 14. My goal is to be a meteorologist. But since I possess no training in meteorology, I suppose I should try stock brokerage.*
- 15. I procrastinate, especially when the task is unpleasant.*
- 16. As indicted, I have over five years of analyzing investments.*
- 17. Personal interests: donating blood. Fourteen gallons so far.*
- 18. Instrumental in ruining entire operation for a Midwest chain store.*
- 19. Note: Please don't misconstrue my 14 jobs as job-hopping. I have never quit a job.*
- 20. Marital status: often. Children: various.*
- 21. Reason for leaving last job: They insisted that all employees get to work by 8:45 a.m. every morning. Could not work under those conditions.*
- 22. The company made me a scapegoat, just like my three previous employers.*
- 23. Finished eighth in my class of ten.*
- 24. References: None. I've left a path of destruction behind me*



“Every day I get up and look through the Forbes list of the richest people in America. If I'm not there, I go to work”

Robert Orben

Queries/Feedback/Suggestions on this newsletter may be addressed to: Nayyar Maniar & Associates, Chartered Accountants B-9, LGF, Green Park (Main), New Delhi – 110016, India. Ph: + 91-11-46021550-52, Email: admin@nmadel.com, Website: www.nmadel.com

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