

TVR/COAI/169

October 17, 2005

Dr. J. S. Sarma, IAS

Chairman, Telecom Commission &

Secretary, DoT

Ministry of Communications & IT

Sanchar Bhavan

20 Ashoka Road

New Delhi – 110 001

Dear Sir,

Re : Budget Proposals for the Year 2006-07

The Indian Government has given unstinting support to the telecom sector, which is a critical infrastructure for economic growth of the country and has a direct multiplier effect on the economic growth. Responding to the support, the Indian cellular industry has put in a significant performance in the recent past. Today, the number of mobile subscribers has exceeded the number of fixed line subscribers and is continuing to grow appreciably.

Sir, as you are aware, the industry has invested over Rs. 60,000 crores in setting up 150 state-of-the-art cellular mobile networks serving about 4,000 cities/towns and over 60,000 villages all over the country. The Cellular service providers are offering world-class digital mobile services to the consumers at the most affordable tariffs in the world.

While the growth of subscribers has indeed been very aggressive, it has not been matched by a proportionate growth in revenues mainly due to decline in call rates. The ARPU (Average Revenue Per User) of the private GSM operators have been declining sharply and are presently as low as Rs. 390 per subscriber in April – June 2005 quarter.

In addition to the challenge of low Average Revenue Per user (ARPU), the industry is also been facing a very high level of duties & levies that have been imposed on the sector, apart from new taxes or restructuring of the tax system (VAT).

As a result of the above, the **industry is operating on thin margins leaving it with inadequate resources to fund network expansion and growth to rural and unserved areas.** This is one of the reasons why even today a very large portion of rural area is still uncovered and the benefits of the telecom services are yet to reach a vast majority of the population.

We therefore believe that the **new budget should aim at reducing the burden of levies on the telecom sector and also focus towards removing administrative hassles and unnecessary paperwork** which also consumes time of the concerned government department.

We firmly believe that it is in the interest of the government that all the financial levies on the telecom sector as well as the administrative hurdles are removed **in order to ensure maximization of the telecom sector revenues.**

Higher telecom revenues will mean faster growth of the sector, which in turn will yield higher direct and indirect revenues for the government. In our background note on the same we have tried to establish the fact that lower tax rate/ levies will translate into higher tax receipts for the government (**See Annexure-1**).

Against the above background, we would like to submit our budget proposals for 2006-07. A summary of our proposals is as follows:

Key Issues

1. Additional Duty of Customs (ACD)

BCD has been removed on mobile phones covered under the ITA. However, to compensate for the internal taxes like sales tax, proposed State VAT, central sales tax etc, an additional duty of customs of 4% has been levied on ITA bound items.

Proposal- ACD paid can be availed as credit against excise duty on finished products by the manufacturing sector. This facility should be extended to telecom service providers as well and Telecom Service Providers should be made eligible to avail credit of 4% ACD.

2. CENVAT credits for Motor Vehicles

CENVAT credit is allowable on excise duty paid for Motor vehicles registered in the name of provider of output service for providing taxable service but it does not include telecom services.

Proposal- As other service industries like courier agency, tour operator are entitled to CENVAT credit for motor vehicles, telecom, being a service, should also be allowed the same benefits.

3. CENVAT credit for Fuel

In case of telecom company, input credit should be allowed for consumption of fuel used for maintenance and running of networks. Telecom operators have to install BTS (Towers) across the service area and need to spend a huge amount on fuel for running and maintenance of these sites.

4. Application of MAT u/s 115JA

The purpose of having section 80 IA was to provide tax exemption to infrastructure sector. However, MAT continues to be applicable to Telecom Service Providers.

Proposal- The explanation to section 115JB should be suitably amended to provide for exclusion of incomes, to which section 80IA applies, from the Book Profits of the Company. Infrastructure companies should be exempted from payment of tax during the 80-IA period.

All the above measures **will result in higher disposable surplus for reinvestment in the business, which will enable faster expansion of service thereby resulting in higher revenues for service providers.** These higher revenues will result in higher License Fee and tax revenues for the government. **Besides the above will also result in much higher benefits through faster economic growth.**

Administrative Issues

Besides some of the key issues listed above, **there are some critical administrative issues which are resulting in undue problems** without any revenue gains for the government. **These measures create unnecessary hurdles and result in higher cost not only for the service providers but also for the government. These measures thus create inefficiencies in the economy.**

1. TDS on Interconnection Charges

The Income Tax department has been holding the Interconnection (IUC) charges payable by operators to each other to be covered by section 194J of the Income Tax Act and hence liable to TDS.

Proposal- TDS should not be applicable on interconnect charges paid by companies and necessary clarification should be issued in this matter.

Benefits- Intent of TDS is to widen the tax base. However, telecom service providers are already very high taxpayers in the economy. Moreover, it is difficult to monitor the tax deducted and claim tax credit against heavy load of TDS certificates received for this amounts. Therefore this measure results in inefficiencies in the economy.

2. Service Tax on Interconnection Charges

Telecom operators are receiving demand from the Service Tax Department towards charging of Service Tax on the amount of IUC charges receivable from other operators.

Proposal- Interconnect charges paid are not in the nature of fees for technical service. Interconnect charges are levied for allowing the call from the cellular service provider to be carried over to the other service provider. Thus Service Tax should not be applicable on interconnect charges paid by companies and necessary clarification / Notification should be issued in this matter.

Benefits- This would obviate unnecessary complicated procedures and administrative problems to claim tax credit. Moreover, **there is no loss of revenue to government even if exemption is granted under the provision, since the payment of Service Tax amount would be setoff against the output service tax liability.**

3. Service Tax on Import of Services

In case of an Indian company availing any type of Services from any organisation based outside the country whose services are liable to charge Service Tax does not have any establishment in India, then the Indian company needs to get itself registered and deposit service tax amount with the Government.

Proposal- Necessary clarification in this regard doing away with this requirement of deposit of Service Tax in such cases should be issued.

Benefits- This would obviate unnecessary complicated procedures and administrative problems. **In any case there is no loss of revenue to the government even if exemption is granted under the provision as the mobile companies are already taking input credit** at the time of depositing service tax with the department.

4. Problems in getting C Form to avail Concessional Sales Tax

C Form is issued to avail concessional Sales Tax CST, in case the material is being sold from one state to another state and buyer is purchasing the same as raw material. However, some of the states are not issuing C Form due to lack of clarity on the issue

Proposal- Notification should be issued clarifying that the C form is not required in case of telecommunication and Information Technology sector.

Benefits- An increase in the cost of laying of Telecom infrastructure due to non-availability of 'C' form facility shall hit the Telecom expansion plans – adversely affecting growth & availability of affordable telecom services to the rural and underserved areas.

We believe that the above steps will result in rapid expansion of service and enable achievement of the target of "250 million by 2007". The resultant increase in tele-density will also have a multiplier effect on economic growth.

We sincerely hope that our submissions will merit your kind consideration.

Kind regards,

Sincerely,

TV Ramachandran
Director General

Encl: