

TVR/COAI/233
14th November 2006.

Mr. S.M. Chandrasekhar
Revenue Secretary
Department of Revenue
Finance Ministry
New Delhi – 110 001.

Re: Proposals for recommendations for the Budget 2007-08

Dear Sir,

As you are aware, that telecom is a critical infrastructure which boosts economic growth and enhances consumer well being. Many studies have established the direct multiplier effect of increase in tele-density on economic growth. Countries like Hong Kong, Korea and Singapore have used telecommunications as a key part of their economic development strategy.

In India as well, driven by various policy initiatives, the telecom sector has witnessed a complete transformation, particularly over the last two years. The growth of mobile services has been phenomenal with mobile subscribers growing at a CAGR of around 75% per year from 34 million in March 04 to 92.5 million as on March 06. The total tele-density has touched 15.4% as on Sept. 06, out of which the mobile accounts for 11.7%.

The industry has invested over Rs. 60,000 crores in setting up 133 state-of-the-art cellular mobile networks in around 5,000 cities/towns and over 1-lakh 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

In spite of various constraints and challenges, the GSM service providers have expanded at a rapid pace. It is estimated by experts/ consultants that **the population coverage in India in the last one year has doubled from 30% to 60% and geographical coverage has increased three times from 13% to 39%.**

However, **in spite of increase in coverage – both in terms of population and geographical coverage - the teledensity is still far below the global benchmarks.** The take-up or the usage of service in India is still very low, especially in rural areas. **There is thus an urgent need to facilitate the take-up of service so that more and more people start using the mobile phone.**

In light of the above, it is very important that the **burden of levies on the mobile sector be brought down** to enable further lowering of tariffs which in turn will help in spread of affordable service to the rural masses. **Lowering of levies will not only lead to lower tariffs and affordable service but will also leave more funds for expansion with the service providers.**

It also important to note that even with lowering of levies, the revenues to the government/ exchequer would be fully protected and there is no loss of revenues to the exchequer.

Mobile revenues have grown at a compounded rate of **58.5% year-on-year from March 04 to March 06**. Thus even an annual reduction of **50% in the rate of revenue share license fee**, including the USO contribution, will not reduce the revenues of the government. **On the other hand, because of the rise in gross revenues of the telecom sector, the revenues to the government will continue to rise.** Similarly, the quantum of USO contributions by the private service providers to the government is also protected.

Lower levies on telecom sector will mean that a much higher disposable surplus will be available with service providers to enable expansion of affordable service. Usage of service shall go up as a result of which the revenues of the telecom sector shall rise substantially. This is in the best interest of the government as higher revenues will translate into higher receipts for the government - and more importantly, will result in much higher benefits through economic growth.

Key recommendation: In light of the above, the revenue share licence fee should be reduced to 6% (includes 5% USO levy), as is applicable in the case of NLD/ ILD licence. Since the revenues to the government are protected because of increase in revenues of the telecom sector, even this levy of 6% should be progressively brought down in the coming years.

It is also important that the **present structure of multiple levies on the sector should be done away with and should be replaced by a Single levy** on the telecom sector. At present the sector faces various levies which are imposed by the Central and the State Government such as, Licence fee, Spectrum Charges, ADC, Service Tax, Entry Tax, Octroi, Stamp duties etc. Some State Governments are levying Stamp Duty on installation of towers and on customer acquisition form (CAF) **All these levies at various points of incidence severely hamper the growth of service.** It may therefore be appropriate to do away with all these multiple levies and **replace these with a single levy** on the telecom sector which can be implemented in a very transparent manner. This will not only benefit the telecom sector, but will also reduce administrative burden on the Government.

Key recommendation: All multiple levies on the sector, which act as a bottleneck and stifle growth, should be removed. We should have in place a simple industry-friendly and investor-friendly tax structure.

Thus lowering of levies is one of the most critical issues, which deserves urgent attention. In addition to this, our proposals for the Union Budget 2007-2008 cover some specific tax issues, which are summarized as below:

Key Tax proposals

1. 8% CVD on all telecom software treating them as packaged or canned Software .

Most Custom Houses who are processing the software shipments conceive the software imported for the telecom equipment as the 'Canned Software' and are directing the levy of 8% on all software imported for installation on telecom equipment. We wish to state that the telecom software is equipment specific and has to be configured in the equipment. Therefore it cannot be treated as 'Canned Software'.

Proposal: *A notification be issued to exempt Telecom software being imported by Telecom Service providers from 8% CVD.*

2. 20% limit on CENVAT Credit for Service Sector:

While 100% CENVAT credit is allowed on inputs for manufacturing sector, the service providers are allowed CENVAT claim for inputs only to the extent of 20% with effect from 10/09/04, in case they opt not to maintain separate accounts. Earlier this limit was 35%

Proposal: *For Telecom Sector, limit on utilization of credit only to the extent of 20% of the amount of service tax payable on taxable output service be removed.*

3. 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,** which nullifies the benefit.

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. Further, the MAT credit should not be restricted to the extent of the difference between the normal tax and MAT in that year.*

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, thus creating inefficiencies in the economy.**

1. TDS & Service Tax on Interconnection Usage Charges

CBDT and CBEC treat IUC as covered by section 194J and as payment for services. Both these levies are revenue neutral but create tremendous paperwork and are administrative burden to both the Telecom Operators and Departments

Proposal: *TDS and Service Tax should not be applicable on interconnect usage charges paid by companies and necessary clarification should be issued in this matter.*

2. Service Tax on in-roamers

The department has issued a **Draft** circular 200 – F.No 149/4/2005 – CX.4 seeking the opinion of Telecom operators on chargeability of such services for Service Tax as **Telephone Services** treating the in-roamer as **Temporary Subscriber**.

Proposal: *Draft Circular F.No. 149/4/2005 – CX4 should be withdrawn and a new circular be issued restoring the earlier position that services provided to in-roamers are not liable for Service Tax.*

3. CENVAT credit for Cables, Towers and Telecom Equipment in shelters

To avail CENVAT credit, capital goods should be installed within the premises of the company, however in case of cable laid across the country the same is not possible. The telecom service providers also have to install assets such as BTS, cables, RSUs, boosters across their respective service area/ telecom circle.

Proposal: *The business premises for telecom operators should be clearly defined so as to include the licensed service area in terms of the allotted telecom licenses*

We firmly believe that in the interest of the economic growth and development, the burden of levies on telecom sector should be lowered and all the unnecessary administrative hurdles should be removed in order **to ensure maximization of the benefits from the growth of the telecom sector.**

We are enclosing our proposals for the Union Budget 2007-08 and we sincerely hope that our submissions will merit your kind consideration.

Kind regards,

Sincerely yours,

T. V. Ramachandran
Director General

Encl : as above.