

Indian Budget 2011

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The Budget for 2011-12 is widely seen as cautious approach of the Finance Minister, Dr. Pranab Mukherjee towards balancing this critical phase of Indian economy. We are facing complex issues relating to soaring inflation, high growth rate, employment problems, rising oil prices, increasing deficit on current and capital account, corruption, black money, internal law and order disturbances and many more. In these circumstances our Finance Minister can definitely be excused for remaining in hibernation and playing safe in his position.

We wish financial establishment gets more proactive towards the needs of the time and react muscularly keeping in mind the aspirations of the public. In view of the media generated publicity about wastages and misappropriations of public money by some selected class of individuals the whole governance has been put on public trial. In these circumstances Regulatory Bodies are required to get into action swiftly and clear the misgivings otherwise help the government to discipline the perpetrators.

However, if the government feels that, the regulatory mechanism and policing can not be the solution to the problems like black money and foreign bank accounts etc. than it should audaciously look for alternative means and measures in the larger interest of the nation without being conscientious of opposition party's political criticism. Finance Minister should realise that, enormous Indian wealth is lying in other countries which he can attract discreetly and not by any kind of intimidation or coercion. In the interest of infrastructure development the government can come out with some scheme which permits this money to return back to India and strictly get invested in sector like education, health, roads, housing etc. A very simple scheme can do wonders to the entire nation and make our finance minister's name and congress leadership immortal in the fiscal and financial history of India.

KEY FEATURES OF FINANCE MINISTER'S BUDGET 2011-2012

Overview of the Economy

Gross Domestic Product (GDP) estimated to have grown at 8.6 per cent in 2010-11 in real terms. Economy has shown remarkable resilience. Continued high food prices have been principal concern this year. Exports have grown by 29.4 per cent, while imports have recorded a growth of 17.6 per cent during April to January 2010-11 over the corresponding period last year. Indian economy expected to grow at 9 per cent with an outside band of +/- 0.25 per cent in 2011-12.

Tax Reforms

Direct Taxes Code (DTC) to be finalised for enactment during 2011-12. DTC proposed to be effective from April 1, 2012. GST, Constitution Amendment Bill proposed to be introduced in this session of Parliament.

Expenditure Reform

Committee has been set up by Planning Commission to suggest government expenditure (capital, revenue, plan and non plan) reforms.

Subsidies

Government actively considering extension of the Nutrient Based Subsidy regime to cover urea. Government to move towards direct transfer of cash subsidy to people living below poverty line in a phased manner for better delivery of kerosene, LPG and fertilisers.

PSU's

Rs. 40,000 crore to be raised through disinvestment in 2011-12. Government committed to retain at least 51 per cent ownership and management control of the Central Public Sector Undertakings.

Investment Environment

Government to further liberalise the FDI policy. SEBI registered mutual funds permitted to accept subscription from foreign investors who meet KYC requirements for equity schemes. To enhance flow of funds to infrastructure sector, the FII limit for investment in corporate bonds issued in infrastructure sector being raised.

Banking and Micro Finance

Additional banking licences will be issued to private sector players. Rs. 6,000 crore will be provided to public sector banks for maintaining minimum of Tier I CRAR of 8 per cent. Rs. 500 crore will be provided to Regional Rural Banks for maintaining CRAR of at least 9 per cent as on March 31, 2012. India Microfinance Equity Fund of Rs. 100 crore to be created with SIDBI. New authority will vouch interest of small borrowers. Women's SHG's Development Fund to be created with a corpus of Rs. 500 crore. Target of providing banking facilities to all 73,000 habitations having a population of over 2,000 to be completed during 2011-2012.

Micro Small and Medium Enterprises

Rs. 5,000 crore will be provided to SIDBI for refinancing incremental lending by banks to these enterprises. Rs. 3,000 crore will be provided to NABARD to provide support to handloom weaver co-operative societies which have become financially unviable due to non-repayment of debt by handloom weavers facing economic stress. Public sector banks to achieve a target of 15 per cent as outstanding loans to minority communities under priority sector lending at the earliest.

Housing Sector Finance

Existing scheme of interest subvention of 1 per cent on housing loan further liberalised. Existing housing loan limit enhanced to Rs. 25 lakh for dwelling units under priority sector lending. Provision under Rural Housing Fund enhanced to Rs. 3,000 crore. To enhance credit worthiness of economically weaker sections and LIG households, a Mortgage Risk Guarantee Fund to be created under Rajiv Awas Yojana. Central Electronic Registry to prevent frauds involving multiple lending on the same immovable property to become operational by March 31, 2011.

Legislative Reforms

Financial Sector Legislative Reforms Commission set up to rewrite and streamline the financial sector laws, rules and regulations. Companies Bill to be introduced in the Lok Sabha during current session.

Food & Agriculture

Allocation under Rashtriya Krishi Vikas Yojana increased from Rs. 6,755 crore to Rs. 7,860 crore. To improve rice based cropping system in eastern region, allocation of Rs. 400 crore has been made. Allocation of Rs. 300 crore to promote production of 60,000 tons of pulses in rainfed areas. Allocation of Rs. 300 crore to bring 60,000 hectares under oil palm plantations. Initiative to yield about 3 lakh Metric tonnes of palm oil annually in five years. Allocation of Rs. 300 crore for implementation of vegetable initiative to provide quality vegetable. Allocation of Rs. 300 crore to promote higher production of Bajra, Jowar, Ragi and other millets, which are highly nutritious and have several medicinal properties. Allocation of Rs. 300 crore to promote animal based protein production through livestock development, dairy farming, piggery, goat rearing and fisheries. Allocation of Rs. 300 crore for Accelerated Fodder Development Programme to benefit farmers in 25,000 villages.

Agriculture Credit

Credit flow for farmers raised from Rs. 3,75,000 crore to Rs. 4,75,000 crore in 2011-12. Interest subvention proposed to be enhanced from 2 per cent to 3 per cent for providing short-term crop loans to farmers who repay their crop loan on time. In view of enhanced target for flow of agriculture credit, capital base of NABARD to be strengthened by Rs. 3,000 crore in phased manner. Rs. 10,000 crore to be contributed to NABARD's Short-term Rural Credit fund for 2011-12. Approval being given to set up 15 more Mega Food Parks during 2011-12.

Infrastructure and Industry

Allocation of Rs. 2,14,000 crore for infrastructure in 2011-12. This is an increase of 23.3 per cent over 2010-11. This also amounts to 48.5 per cent of total plan allocation. Government to come up with a comprehensive policy for further developing PPP projects. IIFCL to achieve cumulative disbursement target of Rs. 20,000 crore by March 31, 2011 and Rs. 25,000 crore by March 31, 2012. Under take out financing scheme, seven projects sanctioned with debt of Rs. 1,500 crore. Another Rs. 5,000 crore will be sanctioned during 2011-12. To boost infrastructure development, tax free bonds of Rs. 30,000 crore proposed to be issued by Government undertakings during 2011-12.

National Manufacturing Policy

Share of manufacturing in GDP expected to grow from about 16 per cent to 25 per cent over a period of 10 years. Government will come out with a manufacturing Policy. National Mission for hybrid and electric vehicle to be launched. Financial Assistance to be made available for metro projects in Delhi, Mumbai, Bengaluru, Kolkata and Chennai. Capital investment in fertiliser production proposed to be included as an infrastructure sub-sector.

Exports

Self assessment to be introduced in Customs to modernize the Customs administration. Proposal to introduce scheme for refund of taxes paid on services used for export of goods. Mega Cluster Scheme to be extended for leather products. Seven mega leather clusters to be set up during 2011-12. Jodhpur to be included for the development of a handicraft mega cluster.

Black Money

Five fold strategy to be put into operation to deal with the problem of generation and circulation of black money. Government joining various international forums which are engaged in anti money laundering, Economic development, Exchange of information for tax purposes. Various Tax Information Exchange Agreements and Double Taxation Avoidance Agreements being concluded. Foreign Tax Division of CBDT has been strengthened to effectively handle increase in tax information exchange and transfer pricing issues. Enforcement Directorate strengthened three fold to handle increased number of cases registered under amended Money Laundering Legislation. Finance Ministry has commissioned study on unaccounted income and wealth held within and outside the country. Comprehensive national policy to be announced in near future to strengthen controls over prevention of trafficking on narcotic drugs.

Bharat Nirman

Allocation for Bharat Nirman programme proposed to be increased by Rs. 10,000 crore from the current year to Rs. 58,000 crore in 2011-12. Plan to provide Rural Broadband Connectivity to all 2,50,000 Panchayats in the country in three years.

MGNREGA

In pursuance of last years budget announcement to provide a real wage of Rs. 100 per day, the Government has decided to index the wage rates notified under the MGNREGA to the Consumer Price Index for Agricultural Labour. The enhanced wage rates have been notified by the Ministry of Rural Development on January 14, 2011. From 1st April, 2011, remuneration of Anganwadi workers increased from Rs. 1,500 per month to Rs. 3,000 per month and for Anganwadi helpers from Rs. 750 per month to Rs. 1,500 per month.

Education

Allocation for education increased by 24 per cent over current year. Rs. 21,000 crore allocated, which is 40 per cent higher than Budget for 2010-11. Pre-matric scholarship scheme to be introduced for needy SC/ST students studying in classes IX and X. Connectivity to all 1,500 institutions of Higher Learning and Research through optical fiber backbone to be provided by March, 2012. Additional Rs. 500 crore proposed to be provided for National Skill Development Fund during the next year.

Health

Plan allocations for health stepped-up by 20 per cent. Scope of Rashtriya Swasthya Bima Yojana to be expanded to widen the coverage.

Financial Inclusion

Exiting norms under co-contributory pension scheme "Swavalamban" to be relaxed. Benefit of Government contribution to be extended from three to five years for all subscribers who enroll during 2010-11 and 2011-12. Eligibility for pension under Indira Gandhi National Old Age Pension Scheme for BPL beneficiaries reduced from 65 years of age to 60 years. Those above 80 years of age will get pension of Rs. 500 per month instead of Rs. 200 at present.

Environment and Climate Change

Rs. 200 crore proposed to be allocated for Green India Mission from National Clean Energy Fund. Rs. 200 crore proposed to be allocated for launching Environmental Remediation Programmes from National Clean Energy Fund. Special allocation of Rs. 200 crore proposed to be provided for clean-up of some more important lakes and rivers other than Ganga.

Other Provisions and Defence Expenses

To boost development in North Eastern Region and Special Category States, allocation for Special Assistance doubled. Rs. 8,000 crore provided in current year for development needs of Jammu and Kashmir. Allocation made in 2011-12 to meet the infrastructure needs for Ladakh Rs. 100 crore and Jammu region Rs. 150 crore). Allocation under Backward Regions Grant Fund increased by over 35 per cent. Funds allocated under Integrated Action Plan for addressing problems related to Left Wing extremism affected districts. 60 selected Tribal and backward districts provided with 100 per cent block grant of Rs. 25 crore and Rs. 30 crore per district during 2010-11 and 2011-12 respectively. A lump-sum ex-gratia compensation of Rs. 9 lakh for 100 per cent disability to be granted for personnel of Defence and Para Military forces discharged from service on medical ground on account of disability attributable to government service. To build judicial infrastructure, plan provision for Department of Justice increased by three fold to Rs. 1,000 crore. Provision of Rs. 1,64,415 crore, including Rs. 69,199 crore for capital expenditure to be made for Defence Services in 2011-12.

Other Initiative by IT Dept.

These include e-filing and e-payment of taxes, adoption of 'Sevottam' concept by CBEC and CBDT, web based facility for tax payers to track the resolution of refunds and credit for pre-paid taxes and augmentation of processing capacity. Under Mission mode projects, funds released to 31 projects received from States/ UTs for computerisation of Commercial taxes. This will allow States to align with roll out of GST. Bill to amend the Indian Stamp Act proposed to be introduced shortly. A new scheme with an outlay of Rs. 300 crore to be launched to provide assistance to States to modernise their stamp and registration administration and roll out e-stamping in all the districts in the next three years. New simplified form 'Sugam' to be introduced to reduce the compliance burden of small tax payers falling within presumptive taxation. Three more benches of Settlement Commission to be set up to fast track the disposal of cases.

Budget Estimates 2011-12

Gross Tax receipts are estimated at Rs. 9, 32,440 crore. Non-tax revenue receipts estimated at Rs. 1, 25,435 crore. Total expenditure proposed at Rs. 12, 57,729 crore. Increase of 18.3 per cent in total Plan allocation. Increase of 10.9 per cent in the Non-plan expenditure. XI Plan expenditure more than 100 per cent in nominal terms than envisaged for the Plan period. Increase of 23 per cent in Plan and Non-plan transfer to States and UTs. Fiscal Deficit brought down from 5.5 per cent in BE 2010-11 to 5.1 per cent of GDP in RE 2010-11. Fiscal Deficit kept at 4.6 per cent of GDP for 2011-12. 10. Fiscal Deficit to be progressively reduced to 3.5 per cent by 2013-14. "Effective Revenue Deficit" estimated at 2.3 per cent of GDP in the Revised Estimates for 2010-11 and 1.8 per cent for 2011-12. All subsidy related liabilities brought into fiscal accounting. Net market borrowing of the Government through dated securities in 2011-12 would be Rs. 3.43 lakh crore. Central Government debt estimated at 44.2 per cent of GDP for 2011-12 as against 52.5 per cent recommended by the 13th Finance Commission.

Tax Proposals - Direct Taxes

- 1 Exemption limit for the individual taxpayers enhanced from Rs. 1, 60,000 to Rs. 1, 80,000 giving uniform tax relief of Rs. 2,000.
2. Exemption limit enhanced to Rs. 2, 50,000 and qualifying age reduced for senior citizens from 65 to 60 year. Higher exemption limit of Rs. 5, 00,000 Citizens over 80 years.
- 3 Surcharge of 7.5 per cent on domestic companies reduced to 5 per cent.
4. Minimum Alternative Tax increased from 18 per cent to 18.5 per cent.
5. Tax incentives extended to attract foreign funds for financing of infrastructure.
6. Deduction of Rs. 20,000 for investment in long-term infrastructure bonds extended for one more year.
7. Lower rate of 15 per cent tax on dividends received by an Indian company from its foreign subsidiary.
8. Investment linked deduction extended to fertiliser industry and developing affordable housing.
9. Deduction on payments made to National Laboratories, Universities and Institutes of Technology enhanced to 200 per cent.

Tax Proposals - Indirect Taxes

1. Stay on course for transition to GST. Central Excise Duty to be maintained at standard rate of 10 per cent. Nominal Central Excise Duty of 1 per cent imposed on 130 items entering in the tax net. Lower rate of Central Excise Duty enhanced from 4 per cent to 5 per cent.

2. Branded garments subject to 10 per cent excise duty.

3 Equipments needed for storage and warehouse facilities on agricultural produce exempted from excise duty. Basic Custom Duty reduced for specified agricultural machinery from 5 per cent to 2.5 per cent. Basic Custom Duty reduced on micro-irrigation equipment from 7.5 per cent to 5 per cent. De-oiled rice bran cake to be fully exempted from basic Custom Duty. Export Duty of 10 per cent to be levied on its export.

4. Rate of Export Duty for all types of iron ore enhanced and unified at 20 per cent ad valorem. Full exemption from Export Duty to iron ore pellets. Basic Custom Duty on two critical raw materials of cement industry viz. petcoke and gypsum is proposed to be reduced to 2.5 per cent. Cash dispensers fully exempt from basic Customs Duty. Full exemption from basic Customs Duty and a concessional rate of Central Excise Duty extended to batteries imported by manufacturers of electrical vehicles. Concessional Excise Duty of 10 per cent to vehicles based on Fuel cell technology. Exemption granted from basic custom duty and special CVD to critical parts/assemblies needed for Hybrid vehicles. Reduction in Excise Duty on kits used for conversion of fossil fuel vehicles into Hybrid vehicles. Excise Duty on LEDs reduced to 5 per cent and special CVD being fully exempted. Basic Customs Duty on solar lantern reduced from 10 to 5 per cent. Full exemption from basic Customs Duty to Crude Palm Stearin used in manufacture of laundry soap. Full exemption from basic Excise Duty granted to enzyme based preparation for pre-tanning.

5. Parallel Excise Duty exemption for domestic suppliers producing capital goods needed for expansion of existing mega or ultra mega power projects. Full exemption from basic Customs Duty to bio-asphalt and specified machinery for application in the construction of national highways.

6. Exemption from Import Duty for spares and capital goods required for ship repair units extended to import by ship owners. Concessional basic Custom Duty of 5 per cent and CVD of 5 per cent available to newspaper establishments for high speed printing presses extended to mailroom equipment. Jumbo rolls of cinematographic film fully exempted from CVD by providing full exemption from Excise Duty. Out right concession to factory-built ambulances from Excise Duty. Relief measures proposed for raw pistachio, bamboo for agarbatti, lactose for the manufacture of homoeopathic medicines, sanitary napkins, baby and adult diapers.

Service Tax

Standard rate of Service Tax retained at 10 per cent, while seeking a closer fit between present regime and its GST successor. Hotel accommodation in excess of Rs. 1,000 per day and service provided by air conditioned restaurants that have license to serve liquor added as new services for levying Service Tax. Tax on all services provided by hospitals with 25 or more beds with facility of central air conditioning. Service Tax on air travel both domestic and international raised. Services provided by life insurance companies in the area of investment and some more legal services proposed to be brought into tax net. All individual and sole proprietor tax payers with a turn over upto Rs. 60 lakh freed from the formalities of audit.

Net Position

Proposals relating to Customs and Central Excise estimated to result in a net revenue gain of Rs. 7,300 crore. Proposals relating to Service Tax estimated to result in net revenue gain of Rs. 4,000 crore. Proposals relating to Direct Taxes estimated to result in a revenue loss of Rs. 11,500 crore and those related to Indirect Taxes estimated to result in net revenue gain of Rs. 11,300 crore.

Queries & Discussions Welcome

Note: The purpose of this note is to provide a brief overview of the key announcements pertaining to the Union Budget 2011. It does not seek to critically examine the various provisions nor is it meant to a complete elaboration of all its provisions. It is possible that some provisions of the Union Budget 2011 could be altered in some respect at the time of enactment of the final legislation. We recommend that advice be sought before taking any action on specific issues.

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