

Key Features of Budget 2008-2009, The Economy : An Overview

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The Gross Domestic Product increased by 7.5 per cent, 9.4 per cent and 9.6 percent in first three years, of the UPA Government resulting in an unprecedented average growth rate of 8.8 per cent. The drivers of growth continue to be 'services' and 'manufacturing' which are estimated to grow at 10.7 per cent and 9.4 per cent respectively.

Growth rate in agriculture for 2007-08 is estimated at 2.6 per cent.

Food grain production in 2007-08, estimated at 219.32 million tonnes-an all time record. Rice production at 94.08 million tonnes, maize at 16.78 million tonnes, soya bean at 9.45 million tonnes, cotton at 23.38 million bales each, an all time record.

Rashtriya Krishi Vikas Yojana launched with an outlay of Rs. 25,000 crore, National Food Security Mission with an outlay of Rs. 4,882 crore under National Policy for Farmers in the Eleventh Five Year Plan.

THE GROWTH STORY : FASTER AND MORE INCLUSIVE

Agricultural credit poised to reach Rs. 2,40,000 crore by March, 2008.

11.4 crore children covered under Mid Day Meal Scheme, the largest school lunch programme in the world.

Under National Rural Health Mission 8,756 primary health centres have been made 24x7.

1,82,000 girls enrolled in residential schools under Kasturba Gandhi Balika Vidyalaya Scheme.

BHARAT NIRMAN

Bharat Nirman has made impressive progress in 2007-08 with 290 habitations provided with drinking water each day, 17 habitations connected through all weather road, 52 villages provided telephones, 42 villages electrified & 4,113 rural houses completed each day.

ELEVENTH FIVE YEAR PLAN: THE CRUCIAL SECOND YEAR

GBS 2008-09 at Rs.2,43,386 crore higher by Rs. 38,286 crore over 2007-08. Central Plan allocation at Rs.1,79,954 crore, an increase of 16 percent over 2007-08; Bharat Nirman to get Rs. 31,280 crore.

Sarva Shiksha Abhiyan (SSA): Sarva Shiksha Abhiyan provided Rs.13,100 crore with the focus to shift from access and infrastructure at the primary level to enhancing retention and improving quality of learning. Mid-day Meal to get Rs. 8,000 crore; secondary education to get Rs. 4,554 crore.

Jawahar Navodaya Vidyalaya: Rs. 130 crore provided in 2008-09, to establish Navodaya Vidyalaya in 20 districts having large concentration of Scheduled Castes & Scheduled Tribes.

Kasturba Gandhi Balika Vidyalaya: Funds (as part of SSA) provided for additional 410 Vidyalayas in educationally backward areas. Rs. 80 crore allocated to set up new or upgrade existing hostels attached to Balika Vidyalaya.

National Means-cum-Merit Scholarship: Rs. 750 crore allocated to build up a corpus of Rs.3,000 crore in four years. 1,00,000 Scholarship to be awarded beginning 2008-09.

Nehru Yuva Kendra: Rs. 10 crore allocated in 2008-09 to set up a Kendra in 123 districts, and to cover recurring expenditure in the first year.

Mid Day Meal Scheme: Extended to upper primary classes in Government and Government aided schools in all blocks which will benefit 2.5 crore children taking the total number of children covered under the scheme to 13.9 crore.

Institutes of Higher Education: India to become a knowledge society, three IISERs at Mohali, Pune and Kolkata; and an IIIT at Kanchipuram have started functioning. Government to set up 16 Central Universities in each of the hitherto uncovered states; three IITs in Andhra Pradesh, Bihar and Rajasthan; two IISERs at Bhopal and Tiruvananthapuram; and two Schools of Planning and Architecture at Bhopal and Vijayawada: Rs. 5 crore grant provided to Deccan College, Postgraduate and Research Institute, Pune.

Science and Technology: Rs.85 crore allocated for Innovation in Science Pursuit for Inspired Research (INSPIRE); which will include scholarships for young learners (10-17 years), scholarships for continuing science education (17-22 years) and opportunities for research careers (22-32 years); Rs. 100 crore provided for establishing the National Knowledge Network.

Health Sector: Rs.16,534 crore allocated, for the sector marking an increase of 15% over 2007-08.

National Rural Health Mission (NRHM): 462,000 Associated Social Health Activitists have been trained, 177,924 villages have sanitation committees functional and 323 district Hospitals have been taken up for upgradation. Allocation to NRHM has been increased to Rs. 12,050 crore.

HIV/AIDS: The National Aids Control Programme provided Rs.993 crore.

Polio: Drive to eradicate polio continues with revised strategy and focus on the high risk districts in Uttar Pradesh and Bihar. Rs. 1,042 crore allocated in 2008-09.

Rashtriya Swasthya Bima Yojana: Rashtriya Swasthya Bima Yojana to provide health cover of Rs.30,000 for every worker in the unorganised sector falling under the BPL category and his/her family. The Yojana will be launched in Delhi and in the States of Haryana and Rajasthan on April 1, 2008. Rs.205 crore provided as the Centre's share of the premia in 2008-09.

National Programme for the Elderly: National Programme for the Elderly to be started in 2008-09 with a Plan outlay of Rs.400 crore. Two National Institutes of Ageing, eight regional centres, and a department for geriatric medical care in one medical college/tertiary level hospital in each State to be established during the Eleventh Plan period.

Integrated Child Development Services (ICDS): Allocation for ICDS enhanced from Rs.5,293 crore in 2007-08 to Rs.6,300 crore in 2008-09; Remuneration of Anganwadi workers being increased from Rs.1,000 per month to Rs.1,500 per month; remuneration of Anganwadi Helpers increased from Rs.500 per month to Rs.750 per month; over 18 lakh Anganwadi workers and helpers to benefit; 5,959 ICDS projects and 932,000 Anganwadi and mini-Anganwadi centres functional under ICDS at the end of December 2007.

Flagship Programmes

National Rural Employment Guarantee Scheme (NREGS): NREGS to be rolled out to all 596 rural districts in India with provision of Rs.16,000 crore; More money will be provided to meet the legal guarantee of employment as demand rises.

Jawaharlal Nehru National Urban Renewal Mission (JNNURM): Allocation for JNNURM increased to Rs.6,866 crore in 2008-09 from Rs.5,482 crore in 2007-08.

Rajiv Gandhi Drinking Water Mission: Allocation for Rajiv Gandhi Drinking Water Mission enhanced to Rs.7,300 crore in 2008-09 as against Rs.6,500 crore in 2007-08;

Total Sanitation Campaign to be provided Rs.1,200 crore in 2008-09.

Desalination Plant near Chennai: Rs.300 crore in 2008-09 for a desalination plant near Chennai to be set up under public private partnership.

North Eastern Region (NER): Ministry of Development of North Eastern Region to be provided Rs. 1,455 crore. Including this amount, total Budget allocation for NER, to increase to Rs.16,447 crore in 2008-09 from Rs.14,365 crore in 2007-08.

Development and Finance Corporations: Additional equity contributions proposed for National Minorities Development and Finance Corporation Rs. 75.00 crore, National Finance and Development Corporations for weaker sections comprising Safai Karamcharis, Scheduled Castes and Backward Classes. Rs. 106.50 crore, National/State Scheduled Tribes Finance and Development Corporations Rs. 50.00 crore, National Handicapped Development Corporation Rs. 9.00 crore.

Scholarships: Pre- and post-matric scholarship programmes announced in previous Budgets for SC, ST, OBC and minorities to get further funds in 2008-09: Scheduled Castes (Rs.804 crore), Scheduled Tribes (Rs.195 crore), Other Backward Classes (Rs.164 crore) and Minorities (post-matric) (Rs.100 crore).

Rajiv Gandhi National Fellowship Programme supporting SC and ST students pursuing M.Phil and PhD courses allocated Rs.75 crore in 2008-09.

Minorities: Allocation to the Ministry of Minority Affairs increased from Rs.500 crore in 2007-08 to Rs.1,000 crore in 2008-09; Report of the Justice Rajindar Sachar Committee taken up for speedy implementation.

Women and Children : Rs, 11,460 crore has been provided for 100% women specific programmes and Rs. 16,202 crore for schemes where at least 30 per cent allocation is for women specified programmes.

Allocation for Ministry of Women and Child Development enhanced by 24% to Rs. 7,200 crore in 2008-09.

Self Help Groups : Life Insurance Corporation of India being asked to scale up Janashree Bima Yojana scheme to cover all women self help groups that are credit-linked to the banks; of Rs. 500 crore proposed to be contributed to the corpus of the Social Security Fund with annual contributions to be made as the scheme is scaled up.

Supplement to GBS : Rs.8,365 crore provided as additional funds for Plan 'B' through two supplementaries in 2007-08; additional resources to the tune of Rs.10,000 crore to be mobilized under Plan 'B' for Plan Capital expenditure in 2008-09 also.

Agricultural Credit : Growth of agricultural credit set to exceed target set for 2007-08. For 2008-09, target set at Rs.280,000 crore, with short-term crop loans continued to be disbursed at 7 per cent per annum; initial provision of Rs.1,600 crore made for interest subvention in 2008-09.

Investment in Agriculture : Gross Capital Formation (GCF) in agriculture as a proportion of GDP in the agriculture sector improves from a low of 10.2 per cent in 2003-04 to 12.5 per cent in 2006-

07; Target to raise it to 16 per cent during the Eleventh Plan to achieve the growth rate of 4 per cent.

Water Resources : Accelerated Irrigation Benefit Programme (AIBP): 24 major and medium irrigation projects and 753 minor irrigation schemes to be completed in 2007-08, creating additional irrigation potential of 500,000 hectare; Outlay for 2008-09 increased to Rs. 20,000 crore, from Rs.11,000 crore in 2007-08.

Rainfed Area Development Programme finalised and to be implemented in 2008-09 with an allocation of Rs.348 crore. Priority to those areas that have not been beneficiaries of watershed development schemes.

Centrally Sponsored Scheme on Micro Irrigation: Rs.500 crore being allocated in 2008-09 with a target of covering 400,000 hectare.

Water bodies: Agreements for a total sum of US\$738 million signed with the World Bank by the Governments of Tamil Nadu, Andhra Pradesh and Karnataka to repair, renovate and restore water bodies. Similar agreements to be signed between the World Bank and the Governments of Orissa, West Bengal and some other States.

Irrigation and Water Resources Finance Corporation: 14 irrigation projects approved as National Projects by Government; Irrigation and Water Resources Finance Corporation (IWRFC) proposed to be set up with initial capital of Rs.100 crore contributed by the Central Government, to fund long-gestation major and medium irrigation projects.

National Horticulture Mission (NHM): NHM covering 340 districts in 18 States and two Union Territories, provided Rs.1,100 crore in 2008-09.

Soil testing: 500 soil testing laboratories to be set up during the Eleventh Plan with Government assistance of Rs.30 lakh per laboratory; one-time allocation of Rs.75 crore to the Ministry of Agriculture in order to provide one fully-fitted mobile soil testing laboratory each to 250 districts of the country.

Plantation Crops: Special Purpose Tea Fund for re-plantation and rejuvenation to be provided Rs.40 crore in 2008-09; similar support to cardamom, rubber and coffee; crop insurance scheme for tea, rubber, tobacco, chilli, ginger, turmeric, pepper and cardamom to be introduced.

National Plant Protection Training Institute at Hyderabad to be converted and upgraded into an autonomous National Institute of Plant Health Management.

Crop Insurance: National Agriculture Insurance Scheme (NAIS) to be continued in its present form for Kharif and Rabi 2008-09. Rs.644 crore provided for the scheme.

Weather Based Crop Insurance Scheme implemented as a pilot scheme in selected areas of five States to be continued; Rs.50 crore provided for this purpose in 2008-09.

Subsidy for Fertilizers: Government to continue to provide fertilisers to farmers at subsidized prices; Proposals to move to a nutrient based subsidy regime and alternative methods of delivery being examined.

Cooperative Credit Structure: Prof. Vaidyanathan Committee's report on reviving the short-term cooperative credit structure under implementation in 17 states. Rs. 1185 crore has been released so far by the Central Government to four States. Central Government and State Government have reached an agreement to implement the report on reviving the long term cooperative credit structure. Central Government's share will be Rs. 2,642 crore or 86 per cent of the total burden.

Scheme of Debt Waiver and Debt Relief for farmers: Scheme to cover all loans disbursed by scheduled commercial banks, regional rural banks and cooperative credit institutions up to March 31, 2007 and overdue as on December 31, 2007 are covered under the scheme;

Complete waiver of all loans that were overdue on December 31, 2007 and which remained unpaid until February 29, 2008 for marginal farmers and small farmers;

One time settlement (OTS) scheme in respect of other farmers for all loans that were overdue on December 31, 2007 and which remained unpaid until February 29, 2008; Rebate of 25 per cent against payment of the balance of 75 per cent under OTS;

Agricultural loans restructured and rescheduled by banks in 2004 and 2006 through special packages also eligible, either for a waiver or an OTS on the same pattern;

Implementation of the debt waiver and debt relief scheme to be completed by June 30, 2008; Farmers availing the relief would be entitled to fresh agricultural loans from banks in accordance with normal rules.

About 3 crore small and marginal farmers and about one crore other farmers to benefit from the scheme; Total value of overdue loans being waived estimated at Rs.50,000 crore and the OTS relief estimated at Rs.10,000 crore.

INVESTMENT, INFRASTRUCTURE, INDUSTRY AND TRADE

Saving rate and investment rate estimated to be 35.6 per cent and 36.3 per cent, respectively, by the end of 2007-08; between April- December 2007-2008. FDI amounted to US\$ 12.7 billion and FII to US\$ 18 billion.

Support to Central Public Sector Enterprises (CPSEs): Government to provide Rs.16,436 crore as equity support and Rs.3,003 crore as loans to CPSEs in 2008-09; 44 CPSEs listed as on date; Government policy is to list more CPSEs in order to unlock their true value and improve corporate governance.

Rural Infrastructure Development Fund : Corpus of RIDF-XIV to be raised in 2008-09 to Rs.14,000 crore, with a separate window for rural roads.

Manufacturing Sector : Growth in capital goods still very high at 20.2 per cent. Goal to take manufacturing growth rate to double digit through more reforms.

Power : Against Eleventh Plan target for additional power generation capacity of 78,577 MW Commercial Operation Date (COD) on about 10,000 MW to be achieved by end March 2008.

Ultra Mega Power Project (UMPP): Fourth UMPP at Tilaiya to be awarded shortly; Chhattisgarh, Karnataka, Maharashtra, Orissa and Tamilnadu urged to bring five more UMPPs to the bidding stage by extending the required support.

Rajiv Gandhi Grameen Vidyutikaran Yojana to be continued during the Eleventh Plan period with a capital subsidy of Rs.28,000 crore; allocation of Rs.5,500 crore for 2008-09.

Accelerated Power Development and Reforms Project: Rs.800 crore to be provided in 2008-09, A National Fund for transmission and distribution reform to be created.

Roads : National Highway Development Programme (NHDP): Allocation for NHDP enhanced to Rs.12,966 crore in 2008-09 from Rs.10,867 crore in 2007-08; Completion rate in the Golden Quadrilateral is 96.48 per cent and in the North South, East West Corridor project is 23.36 per cent; Special attention being paid to SARDP-NE; programme devised for the North Eastern region; 180 kms of roads completed in 2007-08 and 300 kms. of road targetted for completion in 2008-09.

Oil and Gas : Seventh round of bidding under the New Exploration Licensing Policy; bids invited for 57 exploration blocks; estimated to attract investment of the order of US\$3.5 billion to US\$8 billion for exploration and discovery.

Coal : 53 coal blocks with reserves of 13,842 million tonnes allotted during April-January 2007-08 to Government and private sector companies; new Coal Distribution Policy notified in October 2007; coal regulator to be appointed.

Information Technology : Allocation to the Department of Information Technology enhanced to Rs.1,680 crore in 2008-09 from Rs.1,500 crore in 2007-08; Two Schemes for establishing 100,000 broadband internet-enabled Common Service Centres in rural areas and State Wide Area Networks (SWAN) with Central assistance under implementation; new scheme for State Data Centres also

approved; Rs.75 crore provided for the common service centres; Rs.450 crore provided for SWAN and Rs.275 crore for the State Data Centres.

Textiles : Schemes for Integrated Textile Parks (SITP) and the Technology Upgradation Fund (TUF) to be continued in the Eleventh Plan period; Provision for SITP being maintained at Rs.450 crore in 2008-09; Provision for TUF to be increased to Rs.1,090 crore in 2008-09 from Rs.911 crore in 2007-08.

Handloom sector: 250 clusters being developed and 443 yarn banks established under the cluster approach to the development of the handloom sector; Over 17 lakh families of weavers to be covered under the health insurance scheme by March 2008; Allocation being increased to Rs.340 crore in 2008-09; Infrastructure and production being scaled up by taking up six centres for development as megaclusters; Varanasi and Sibsagar to be taken up for handlooms, Bhiwandi and Erode for powerlooms, and Narsapur and Moradabad for handicrafts; Each mega-cluster to require about Rs.70 crore; Initial provision of Rs.100 crore made in 2008-09.

Micro, Small and Medium Enterprises : A risk capital fund being created in the Small Industries and Development Bank of India (SIDBI); Credit Guarantee Trust with SIDBI had extended guarantees to 89,129 units for an amount of Rs.2,479 crore as on January 31, 2008; SIDBI to reduce the guarantee fee from 1.5 per cent to 1 per cent and the annual service fee from 0.75 per cent to 0.5 per cent for loans up to Rs.5 lakhs.

Foreign Trade : Relief given to exporters in three tranches amounting to over Rs.8,000 crore; Interest cost of sterilization through market stabilization bonds (MSS), which is in a sense, subsidy to the export sector, estimated at Rs.8,351 crore for the year 2007-08.

FINANCIAL SECTOR

Financial Inclusion: Two recommendations of the Committee on Financial Inclusion proposed to be accepted viz (i) to advise commercial banks, including RRBs, to add at least 250 rural household accounts every year at each of their rural and semi-urban branches; and (ii) to allow individuals such as retired bank officers, ex-servicemen etc to be appointed as business facilitator or business correspondent or credit counselor; banks to be encouraged to embrace concept of Total Financial Inclusion; Government to request all scheduled commercial banks to follow the example set by some public sector banks and meet the entire credit requirements of SHG members, namely, income generation activities, social needs like housing, education, marriage etc., and debt swapping.

(i) Fund of Rs.5,000 crore to be created in NABARD to enhance its refinance operations to short term cooperative credit institutions;

(ii) Two funds of Rs.2,000 crore each to be created in SIDBI - one for risk capital financing and other for enhancing refinance capability to the MSME sector.

(iii) Fund of Rs.1,200 crore to be created in NHB to enhance its refinance operations in the rural housing sector.

These funds are to be governed by the general guidelines that are now applicable to RIDF with some modifications.

Differential Rate of Interest (DRI) scheme: Borrower's eligibility criteria for loan under the DRI scheme to the weaker sections of the community engaged in gainful occupations enhanced.

Capital Markets

Measures to expand the market for corporate bonds: Exchange-traded currency and interest rate futures to be launched and transparent credit derivatives market to be developed with appropriate safeguards; Tradability of domestic convertible bonds to be enhanced through the mechanism of enabling investors to separate the embedded equity option from the convertible bond, and trade it separately; Development of a market-based system for classifying financial instruments based on their complexity and implicit risks to be encouraged.

Permanent Account Number (PAN): Requirement of PAN extended to all transactions in the financial market subject to suitable threshold exemption limits.

National market for securities: Empowered Committee of State Finance Ministers to be requested to work with the Central Government to create pan Indian market for securities that will expand the market base and enhance the revenues of the State Governments.

OTHER PROPOSALS

Skill Development Mission: A non-profit corporation to be established with the entrusted mission to address the challenge of imparting the skills required by a growing economy; Rs.15,000 crore proposed to be garnered as capital from Governments, public and private sector, and bilateral/multilateral sources; Government's equity in the proposed non-profit corporation to be Rs.1,000 crore to begin with.

Industrial Training Institutes: 238 ITIs being upgraded under the World Bank assisted scheme; Under the PPP scheme, 309 ITIs have been identified in 29 States with corresponding industry partners and agreements signed in 244 cases; Rs.750 crore set apart in 2008-09 in anticipation of upgrading 300 more ITIs.

Sainik Schools: Rs.44 crore allocated to the 22 Sainik Schools at the rate of Rs.2 crore each, for immediate improvement of infrastructure including classrooms, laboratories, libraries and facilities for physical education.

Public Distribution System: Rs.32,667 crore being provided next year for food subsidy under PDS and other welfare programmes; State of Haryana and the Union Territory of Chandigarh to introduce, on a pilot basis, a smart card based delivery system to deliver food grains under the PDS.

Unorganised Sector Workers: In anticipation of the Unorganised Sector Workers' Social Security Bill, 2007 being made into law, three schemes designed to provide social security to workers in unorganised sector in a phased manner introduced;

(i) Aam Admi Bima Yojana to provide insurance cover to poor households; in the first year of the Yojana, LIC to cover one crore landless households by September 30, 2008; Rs.1,500 crore placed with LIC; Additional sum of Rs.1,000 crore to be placed with LIC in 2008-09 to cover another one crore poor households in the second year;

(ii) Rashtriya Swasthya Bima Yojana to be implemented with effect from April 1, 2008; Indira Gandhi National Old Age Pension Scheme enlarged with effect from November 19, 2007 to include all persons over 65 years falling under the BPL category expanding beneficiary cover from 87 lakh to 157 lakh; Rs. 3,443 crore being allocated in 2008-09 as against Rs.2,392 crore in 2007-08.

Housing for the Poor: 41.13 lakh houses constructed up to December 2007 under Indira Awas Yojana (IAY) against a target of 60 lakh houses; Cumulative number of houses constructed under IAY to be 51.77 lakh by end March 2008; Subsidy per unit in respect of new houses sanctioned after April 1, 2008 to be enhanced from Rs.25,000 to Rs.35,000 in plain areas and from Rs.27,500 to Rs.38,500 in hill/ difficult areas to reflect the higher cost of construction; Subsidy for upgradation of houses to be increased from Rs.12,500 per unit to Rs.15,000; Public sector banks to be advised to include IAY houses under the differential rate of interest (DRI) scheme and lend up to Rs.20,000 per unit at an interest rate of 4 per cent.

Defence: Allocation for Defence to be increased by 10 per cent from Rs.96,000 crore to Rs.105,600 crore.

Backward Regions Grant Fund: Allocation for 2008-09 kept at same level as current year at Rs.5,800 crore; 45 per cent of the amount likely to be allocated to the States of Bihar, Orissa and Uttar Pradesh.

Climate Change: Permanent institutional mechanism to be established for development and coordination role in exploration and implementation of ideas.

Sixth Central Pay Commission: to submit its report by March 31, 2008.

Commonwealth Games: to be provided Rs.624 crore in 2008-09.

Institutions of Excellence: Special grant of Rs.100 crore awarded to three institutions of excellence for 2008-09

(i) Mahatma Phule Krishi Vidyapeeth, Rahuri, Maharashtra;

(ii) University of Mysore, Mysore; and

(iii) Delhi University, Delhi.

India's Soft Power: Rs.75 crore grant to Indian Council of Cultural Relations to design and implement a programme to achieve the objective of projecting the 'soft power' of India in music, literature, dance, art, cuisine and especially films.

Tiger Protection: One time grant of Rs.50 crore to the National Tiger Conservation Authority to redouble efforts to protect the tiger; Bulk of grant to be used to raise, arm and deploy a special Tiger Protection Force.

Monitoring and Evaluation: Central Plan Schemes' Monitoring System (CPSMS) to be put in place and implemented as Plan scheme; a comprehensive Decision Support System and Management Information System also to be established to generate and monitor scheme-wise and State-wise releases for about 1,000 Central Plan and centrally sponsored schemes in 2008-09; Concurrent evaluation started by some ministries to be supplemented by independent evaluations conducted by research institutions.

BUDGET ESTIMATES

Plan Expenditure estimated at Rs.243,386 crore.

Non-Plan Expenditure estimated at Rs.507,499 crore.

Revenue deficit for 2007-08 to be 1.4 per cent (against a BE of 1.5 per cent) and the fiscal deficit to be 3.1 per cent (against a BE of 3.3 per cent); Revenue receipts of Central Government for 2008-09 projected at Rs.602,935 crore and revenue expenditure at Rs.658,119 crore; Revenue deficit for 2008-09 estimated at Rs.55,184 crore, which amounts to 1.0 per cent of GDP; Fiscal deficit for 2008-09 estimated at Rs.133,287 crore which is 2.5 per cent of GDP; elimination of Revenue Deficit may need one more year; because of the conscious shift in expenditure in favour of health, education and the social sector.

Thirteenth Finance Commission to be requested to revisit the roadmap for fiscal adjustment and suggest a suitably revised roadmap, after the obligations on account of the Sixth Central Pay Commission become clear.

TAX PROPOSALS

Tax to GDP ratio that was 9.2 per cent in 2003-04, set to rise to 12.5 per cent at the end of 2007-08.

Set to achieve the Budget Estimates of indirect taxes and exceed the Budget Estimates of direct taxes.

Indirect Taxes

Customs duties

No change in the peak rate of customs duty.

Customs duty on Project Imports to reduce from 7.5 per cent to 5 per cent; 4 per cent special CVD to be imposed on a few specified projects in the power sector.

Customs duty being reduced on steel melting scrap and aluminium scrap from 5 per cent to nil.

Customs duty to be reduced from 10 per cent to 5 per cent on certain specified life saving drugs and on the bulk drugs used for the manufacture of such drugs. They are also being exempted from excise duty or countervailing duty.

Customs duty is being reduced on vitamin premixes and mineral mixtures from 30 per cent to 20 per cent and on phosphoric acid from 7.5 per cent to 5 per cent to reduce cost of manufacture of dairy and poultry feeds.

Customs duty being reduced on bactofuges from 7.5 per cent to nil for the benefit of dairy industry and to increase shelf life of milk.

Specified parts of set top boxes and specified raw materials for use in the IT/ electronic hardware industry to be exempted from customs duty.

Customs duty on convergence products to be reduced from 10 per cent to 5 per cent to establish parity between devices used in the information/ communication sector and the entertainment sector.

Customs duty being reduced on specified machinery from 7.5 per cent to 5 per cent to provide fillip to the manufacture of sports goods; duty also being exempted on specified raw materials for sports goods.

Customs duty to be exempted on rough cubic zirconia and being reduced on polished cubic zirconia from 10 per cent to 5 per cent, in order to encourage value addition and exports by gem and jewellery industry; Customs duty on rough coral being reduced from 10 per cent to 5 per cent.

Customs duty removed on helicopter simulators to facilitate training of helicopter pilots.

Customs duty reduced on crude and unrefined sulphur from 5 per cent to 2 per cent, in order to support domestic fertiliser production.

Customs duty exemption is proposed to be withdrawn on naphtha for use in the manufacture of polymers in order to correct price distortions and revenue losses.

Naphtha for use in the manufacture of polymers will be subjected to normal rate of 5 per cent.

Naphtha imported for the production of fertilisers will continue to be exempt from import duty.

Export duty on chrome being increased from Rs.2,000 per metric tonne to Rs.3,000 per metric tonne in order to conserve and make it available for value added manufacture in India.

Excise duty

General CENVAT rate on all goods reduced from 16 per cent to 14 per cent to give a stimulus to the manufacturing sector.

Excise duty on all goods produced in the pharmaceutical sector reduced from 16 per cent to 8 per cent.

Excise duty reduced on buses and their chassis from 16 per cent to 12 per cent.

Excise duty reduced on small cars from 16 per cent to 12 per cent and on hybrid cars from 24 per cent to the general revised rate of 14 per cent.

Excise duty reduced on two wheelers and three wheelers from 16 per cent to 12 per cent.

Excise duty to be reduced on paper, paper board and articles made there from manufactured out of non-conventional raw materials by units not having an attached bamboo/wood pulp making plant from 12 per cent to 8 per cent with a further reduction on clearances up to 3,500 MT from 8 per cent to nil. Excise duty on certain varieties of writing, printing and packing paper is to be reduced from 12 per cent to 8 per cent.

Excise duty is to be reduced from 16 per cent to nil on a few mass consumption items including composting machines, wireless data cards, packaged coconut water, tea and coffee mixes, and puffed rice.

Excise duty reduction from 16 per cent to 8 per cent on a few more items including water purification devices, veneers and flush doors, sterile dressing pads etc, specified packaging material and breakfast cereals.

Anti AIDS drug, Atazanavir, as well as bulk drugs for its manufacture are to be exempted from excise duty.

Excise duty being exempted on end-use basis, on refrigeration equipment (consisting of compressor, condenser units, evaporator, etc) above 2 TR (tonne refrigeration) utilising power of 50 KW and above.

Excise duty rates on bulk cement and packaged cement brought on par; bulk cement to attract excise duty of Rs.400 per Metric Tonne or 14 per cent ad valorem, whichever is higher; cement clinkers excise duty at Rs.450 per Metric Tonne.

Excise duty being increased on packaged software from 8 per cent to 12 per cent, bringing at par with customised software attracting a service tax of 12 per cent.

Excise duty on both filter and non-filter cigarettes brought on par by applying higher rates on non-filter cigarettes.

Ad valorem part of the excise duty on unbranded petrol and unbranded diesel being abolished and replaced by an equivalent specific duty of Rs.1.35 per litre; there will be only a specific duty of Rs.14.35 per litre on unbranded petrol and Rs.4.60 per litre on unbranded diesel; there will be no impact on retail prices.

NCCD of 1 per cent removed on polyester filament yarn and the levy shifted to cellular mobile phones.

Service tax

Four services brought under service tax net namely, asset management service provided under ULIP, services provided by stock/commodity exchanges and clearing houses; right to use goods, in cases where VAT is not payable; and customised software, to bring it on par with packaged software and other IT services.

Threshold limit of exemption for small service providers increased from Rs.8 lakhs per year to Rs.10 lakh per year; about 65,000 small service providers go out of the tax net.

Direct Taxes

Threshold limit of exemption from personal income tax in the case of all assesses increased to Rs.150,000. The slabs and rates of tax are :

Up to Rs.150,000	NIL
Rs.150,001 to Rs.300,000	10 per cent

Rs.300,001 to Rs.500,000	20 per cent
Rs.500,001 and above	30 per cent

In case of a woman assessee, the threshold limit increased from Rs.145,000 to Rs.180,000; for a senior citizens, the threshold limit increased from Rs.195,000 to Rs.225,000.

No change in the corporate income tax rates.

No change in the rate of surcharge.

Senior Citizen Saving Scheme 2004 and the Post Office Time Deposit Account added to the basket of saving instruments under Section 80C of the Income Tax Act.

Additional deduction of Rs.15,000 allowed under Section 80D to an individual paying medical insurance premium for his/her parent or parents.

Income Tax Act to be amended to provide that reverse mortgage would not amount to "transfer"; and the stream of revenue received by the senior citizen would not be "income".

Tax income arising from saplings or seedlings grown in a nursery exempted.

Business of production of seeds and manufacture of agricultural implements added to the list of companies allowed weighted deduction of 150 per cent on any expenditure on in-house scientific research.

Benefit of amortisation of certain preliminary expenses under Section 35D allowed to assesseees in the services sector.

Corporate debt instruments issued in demat form and listed on recognised stock exchanges exempted from TDS.

Crèche facilities, sponsorship of an employee-sportsperson, organising sports events for employees and guest houses excluded from the purview of FBT.

Parent company allowed to set off the dividend received from its subsidiary company against dividend distributed by the parent company; provided that the dividend received has suffered DDT and the parent company is not a subsidiary of another company.

Insert a new sub-section (11C) in Section 80-IB to grant a five year tax holiday to hospitals located in any place outside the urban agglomerations especially in tier-2 and tier-3 towns; this window will be open for the period April 1, 2008 to March 31, 2013.

Five year holiday from income tax being granted to two, three or four star hotels established in specified districts having UNESCO-declared 'World Heritage Sites'; the hotel should be constructed and start functioning during the period April 1, 2008 to March 31, 2013.

Coir Board included in Section 10(29A) and exempted from income tax.

Rate of tax on short term capital gains under Section 111A & Section 115AD increased to 15 per cent.

STT paid to be treated like any other deductible expenditure against business income; Levy of STT, in the case of options to be only on premium, where the option is not exercised; liability to be on the seller; where the option is exercised, levy to be on the settlement price and the liability on the buyer; no change in the present rates.

Commodities Transaction Tax (CTT) to be introduced on the same lines as STT on options and futures.

Law being amended to exclude entities carrying on regular trade, commerce or business or providing services in relation to any trade, commerce or business and earning incomes from claiming that their purposes also fall under "charitable purpose"; Genuine charitable organisations not to be affected in any way.

Banking Cash Transaction Tax (BCTT) being withdrawn with effect from April 1, 2009. CST and a Roadmap towards GST.

Central Sales Tax rate being reduced from 3 per cent to 2 per cent from April 1, 2008.

Roadmap for Goods and Service Tax being prepared for introduction of GST from April 1, 2010.

Note: The purpose of this note is to provide a brief overview of the key announcements pertaining to the Union Budget 2008. 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 2008 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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