

Key Features of Budget 2008-2009

Compiled By: Mr A.K. Anand, Director, Foundry Informatics Centre, Delhi

THE ECONOMY : AN OVERVIEW

The Gross Domestic Product increased by 7.5 per cent, 9.4 per cent and 9.6 per cent 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.

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.

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.

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.

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.

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.

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.

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 therefrom 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.

13

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.