

THE ECONOMY AND THE CHALLENGES

- Getting back to potential growth rate of 8 percent is the challenge facing the country.
- Slowdown in Indian economy has to be seen in the context of slowing global economic growth from 3.9 per cent in 2011 to 3.2 per cent in 2012.
- However, no reason for gloom or pessimism. Of the large countries of the world only China and Indonesia growing faster than India in 2012-13. In 2013-14, only China projected to grow faster than India.
- Between 2004 and 2008, and again in 2009-10 and 2010-11 the growth rate was over 8 per cent and crossed 9 per cent in four of those six years.

FISCAL DEFICIT, CURRENT ACCOUNT DEFICIT AND INFLATION

- Dr Vijay Kelkar Committee made its recommendations to Government in September 2012. A new fiscal consolidation path with fiscal deficit at 5.3 per cent of GDP this year and 4.8 per cent of GDP in 2013-14 announced by the Government.
- Foreign investment in an imperative in view of the high current account deficit (CAD). FII, FDI and ECB three main source of CAD Financing. Foreign investment that is consistent with our economic objectives to be encouraged.

THE PLAN AND BUDGETARY ALLOCATIONS

- Estimates (BE) due to slowdown and austerity measures.
- Revised Estimates (RE) of the expenditure in 2012-13 at 96 per cent of the Budget
- During 2013-14, BE of total expenditure of ₹ 16,65,297 crore and of Plan Expenditure at ₹ 5,55,322 crore.
- Plan Expenditure in 2013-14 to grow at 29.4 per cent over Revised Estimates for the current year.
- All flagship programmes fully and adequately funded and sufficient funds provided to each Ministry or Department consistent with their capacity to spend funds.
- Budget for 2013-14 to have one overarching goal of creating opportunities for our youth to acquire education and skills that will get them decent jobs or self-employment.
- Non Plan Expenditure is estimated at ₹ 11,09,975 crore.
- Fiscal deficit for the current year contained at 5.2 per cent and for the year 2013-14 at 4.8 per cent.
- Revenue deficit for the current year at 3.9 per cent and for the year 2013-14 at 3.3 per cent.
- By 2016-17 fiscal deficit to be brought down to 3 per cent, revenue deficit to 1.5 per cent and effective revenue deficit to zero per cent.

BANKING

- Compliance of public sector banks with Basel III regulations to be ensured. ₹ 14,000 crore provided in BE 2013-14 for infusing capital.
- All branches of public sector banks to have ATM by 31.3.2014.
- Proposal to set up India's first Women's Bank as a public sector bank. Provision of ₹ 1,000 crore as initial capital.
- ₹ 6,000 crore to Rural Housing Fund in 2013-14.
- National Housing Bank to set up Urban Housing Fund. ₹ 2,000 crore to be provided to the fund in 2013-14.

INSURANCE

- A multi-pronged approach to increase the penetration of insurance, both life and general, in the country.
- Number of proposals finalised, in consultation with IRDA such as empowering insurance companies to open branches in Tier-II cities and below without prior approval of IRDA, KYC of banks to be sufficient to acquire insurance policies, banks to be permitted to act as insurance brokers, banking correspondent allowed to sell micro-insurance products and achieving the goal of having an office of LIC and an office of at least one public sector general insurance company in towns with population of 10,000 or more.
- Rashtriya Swasthya Bima Yojana to be extended to other categories such as rickshaw, auto-rickshaw and taxi drivers, sanitation workers, rag pickers and mine workers.
- A comprehensive social security package to be evolved for unorganised sector by facilitating convergence among different schemes.

CAPITAL MARKET

- Proposal to amend the SEBI Act, to strengthen the regulator, under consideration.
- Number of proposal finalised in consultation with SEBI.
 - *Designated depository participants, authorised by SEBI, may register different classes of portfolio investors, subject to compliance with KYC guidelines.*
 - *SEBI will simplify the procedures and prescribe uniform registration and other norms for entry for foreign portfolio investors.*
 - *Rule that, where an investor has a stake of 10 per cent or less in a company, it will be treated as FII and, where an investor has a stake of more than 10 per cent, it will be treated as FDI will be laid.*
 - *FIIs will be permitted to participate in the exchange traded currency derivative segment to the extent of their Indian rupee exposure in India.*
 - *FIIs will also be permitted to use their investment in corporate bonds and Government securities as collateral to meet their margin requirements.*
 - *SEBI to prescribed requirement for angel investor pools by which they can be recognised as Category IAIF venture capital funds.*
 - *Small and medium enterprises, to be permitted to list on the SME exchange without being required to make an initial public offer (IPO).*
 - *Stock exchanges to be allowed to introduce a dedicated debt segment on the exchange.*

INFRASTRUCTURE

- Need of new and innovative instruments to mobilise funds for investment in infrastructure sector. Measures such as:
 - *Infrastructure Debt Funds (IDF) to be encouraged,*
 - *IIFCL to offer credit enhancement.*
 - *Infrastructure tax-free bond of ₹50,000 crore in 2013-14,*
 - *Build roads in North eastern states and connect them to Myanmar with assistance from WB & ADB,*
 - *Raising corpus of Rural Infrastructure Development Fund (RIDF) to ₹20,000 crore and*
 - *₹ 5,000 crore to NABARD to finance construction for warehousing. Window to Panchayats to finance construction of godowns.*

Road Construction

- A regulatory authority for road sector.
- 3000 kms of road projects in Gujarat, Madhya Pradesh, Maharashtra, Rajasthan and Uttar Pradesh will be awarded in the first six months of 2013-14.
- Plans for seven new cities have been finalised and work on two new smart industrial cities at Dholera, Gujarat and Shendra Bidkin, Maharashtra will start during 2013-14
- Delhi Mumbai Industrial Corridor (DMIC) to be provided additional funds during 2013-14 within the share of the Government of India in the overall outlay, if required.
- Chennai Bengaluru Industrial Corridor to be developed.
- Preparatory work has started for Bengaluru Mumbai Industrial Corridor.

Leh-Kargil Transmission Line

- Government to construct a transmission system from Srinagar to Leh at a cost of ₹ 1,840 crore.

Ports

- Two new major ports will be established in Sagar, West Bengal and in Andhra Pradesh to add 100 million tonnes of capacity.
- A new outer harbour to be developed in the VOC port at Thoothukkudi, Tamil Nadu through PPP at an estimated cost of ₹ 7,500 crore.

National Waterways

- A bill to declare the Lakhimpur-Bhanga stretch of river Barak in Assam as the sixth national waterway to be moved in Parliament.
- Preparatory work underway to build a grid connecting waterways, roads and ports.

SAVING AND INVESTMENT

Cabinet Committee on Investment

- The Cabinet Committee on Investment (CCI) has been set up. Decisions have been taken in respect of a number of gas, power and coal projects.

New Investment

- Companies investing ₹ 100 crore or more in plant and machinery during the period 1.4.2013 to 31.3.2015 will be entitled to deduct an investment allowance of 15 per cent of the investment.
- Incentives to semiconductor wafer fab manufacturing facilities, including zero customs duty for plant and machinery.

Savings

- Need to incentivise greater savings by household sector in financial instruments. Following measures proposed:
 - *Rajiv Gandhi Equity Savings Scheme to be liberalised.*
 - *Additional deduction of interest upto ₹1 lakh for a person taking first home loan upto ₹25 lakh during period 1.4.2013 to 31.3.2014*
 - *In consultation with RBI, instruments protecting savings from inflation to be introduced.*

POWER SECTOR

Oil and Gas

- A policy to encourage exploration and production of shale gas will be announced.
- The 5 MMTPA LNG terminal in Dabhol, Maharashtra will be fully operational in 2013-14.

Coal

- In the medium to long term need to reduce our dependence on imported coal. One way forward is to devise a PPP policy framework with Coal India Limited as one of the partners.
- Ministry of Coal to announce Government's policies in due course.

Power

- Guidelines regarding financial restructuring of DISCOMS have been announced. State Government urged to prepare the financial restructuring plan, quickly sign MoU and take advantage of the scheme.

MICRO, SMALL AND MEDIUM ENTERPRISES

- Benefits or preferences enjoyed by MSME to continue upto three years after they grow out of this category.
- Refinancing capacity of SIDBI raised to ₹ 10,000 crore.
- Another sum of ₹ 100 crore provided to India Microfinance Equity Fund.
- A corpus of ₹ 500 crore to SIDBI to set up a Credit Guarantee Fund for factoring.
- A sum of ₹ 2,200 crore during the 12th Plan period to set up 15 additional Tool Rooms and Technology Development Centres with World Bank assistance.
- Ministry of Corporate Affairs to notify that funds provided to technology incubators located within academic Institutions and approved by the Ministry of Science and Technology or Ministry of MSME will qualify as CSR expenditure.

TEXTILES

- Technology Upgradation Fund Scheme (TUFS) to continue in 12th Plan with an investment target of ₹ 1,51,000 crore.
- Allocation of ₹ 50 crore to Ministry of Textile to incentivise setting up Apparel Parks within the SITPs to house apparel manufacturing units.
- A new scheme called the Integrated Processing Development Scheme will be implemented in the 12th Plan to address the environmental concerns of the textile industry.
- Working capital and term loans at a concessional interest of 6 per cent to handloom sector.
- Scheme of Fund for Regeneration of Traditional Industries (SFURTI) extended to 800 clusters during the 12th Plan.

AGRICULTURE

- Average annual growth rate of agriculture and allied sector was 3.6% during XI Plan against 2.5% and 2.4% in IX and X plans respectively.
- In 2012-13, total food-grain production will be over 250 million tonnes. Minimum support price for every agricultural produce has increased significantly under the UPA Government.
- ₹ 27,049 crore allocated to Ministry of Agriculture, an increase of 22 per cent over the RE of current year.
- Agricultural research provided ₹ 3,415 crore.

Agricultural Credit

- For 2013-14, target of agricultural credit kept at ₹ 7 lakh crore.
- Interest subvention scheme for short-term crop loans to be continued scheme extended for crop loans borrowed from private sector scheduled commercial banks.

Green Revolution

- Bringing green revolution to eastern India a remarkable success. ₹ 1,000 crore allocated in 2013-14.
- ₹ 500 crore allocated to start a programme of crop diversification that would promote technological innovation and encourage farmers to choose crop alternatives.
- Rashtriya Krishi Vikas Yojana and National Food Security Mission provided ₹ 9,954 crore and ₹ 2,250 crore respectively.
- Allocation for integrated watershed programme increased from ₹ 3,050 crore in 2012-13 (BE) to ₹ 5,387 crore.
- Allocation made for pilots programme on Nutri-Farms for introducing new crop varieties that are rich in micro-nutrients.
- National Institute of Biotic Stress Management for addressing plant protection issues will be established at Raipur, Chhattisgarh.
- The Indian Institute of Agricultural Bio-technology will be established at Ranchi, Jharkhand.
- Pilot scheme to replant and rejuvenate coconut gardens implemented in some districts of Kerala and the Andaman & Nicobar extended to entire State of Kerala.

Farmer Producer Organizations

- Matching equity grants to registered Farmer Producer Organization (FPO) upto a maximum of ₹ 10 lakhs per FPO to enable them to leverage working capital from financial institutions.
- Credit Guarantee Fund to be created in the Small Farmers' Agri Business Corporation with an initial corpus of ₹ 100 crore.

National Livestock Mission

- National Livestock Mission to be set up.
- A provision of ₹ 307 crore made for the Mission.

SOCIAL SECTOR

SC, ST, Women and Children

- Allocations for Scheduled Caste Sub Plan and Tribal Sub Plan increased substantially over the allocations of the current year. Funds allocated to these Sub Plans cannot be diverted.
- ₹ 97,134 crore allocated for programmes relating to women and ₹ 77,236 crore allocated for programmes relating to children.
- Ministry of Women and Child Development to design schemes that will address the concerns of women belonging to the most vulnerable groups, including single women and widows. An additional sum of ₹ 200 crore proposed to be provided to the Ministry to begin work.

Minorities

- An increase of 12 per cent over the BE and 60 per cent over the RE of 2012-13 to Ministry of Minority Affairs.
- Allocation of ₹ 160 crore to the corpus of Maulana Azad Education Foundation to raise its corpus to ₹ 1,500 crore during 12th Plan period.

Disabled Persons

- A sum of ₹ 110 crore to the Department of Disability Affairs for ADIP scheme in 2013-14 against RE 2012-13 of ₹ 75 crore.

Health and Education

- Health for all and education to all remains priority.
- ₹ 37,330 crore allocated to the Ministry of Health & Family Welfare.
- New National Health Mission will get an allocation of ₹ 21,239 crore.
- ₹ 4,727 crore for medical education, training and research.
- ₹ 150 crore provided for National Programme for the Health Care of Elderly.
- Ayurveda, Unani, Siddha and Homoeopathy are being mainstreamed.
- Allocation of ₹ 1,069 crore to Department of AYUSH.
- ₹ 1,650 crore allocated for six AIIMS-like institutions.
- Allocation of ₹ 65,867 crore to the Ministry of Human Resource Development, an increase of 17 per cent over the RE of the current year.
- ₹ 27,258 crore provided for Sarva Shiksha Abhiyaan (SSA).
- An increase of 25.6 per cent over RE of the current year for investments in Rashtriya Madhyamik Shiksha Abhiyan (RMSA).
- ₹ 5,284 crore allocated to Ministries/Departments in 2013-14 for scholarships to students belonging to SC, ST, OBC, Minorities and girl children.
- Mid Day Meal Scheme (MDM) to be provided ₹ 13,215 crore.
- Government committed to the creation of Nalanda University as a centre of educational excellence.

ICDS

- ₹ 17,700 crore allocated for ICDS in 2013-14 representing an increase of 11.7 per cent over 2012-13.
- Allocation of ₹ 300 crore in 2013-14 for a multi-sectoral programme aimed at overcoming maternal and child malnutrition. Programme to be implemented in 100 districts during 2013-14 to be scaled to cover 200 districts the year after.

Drinking Water

- ₹ 15,260 crore allocated to Ministry of Drinking Water and Sanitation.
- ₹ 1,400 crore provided for setting-up of water purification plants in 2000 arsenic and 12000 fluoride-affected rural habitations.

Rural Development

- Allocation of ₹ 80,194 crore in 2013-14 for Ministry of Rural Development marking an increase of 46% over RE 2012-13.
- Proposal to carve out PMGSY-II and allocate a portion of the funds to the new programme that will benefit States such as Andhra Pradesh, Haryana, Karnataka, Maharashtra, Punjab and Rajasthan.

Environment

- Support to municipalities that will implement waste-to-energy projects.
- Government to provide low interest bearing fund from the National Clean Energy Fund (NCEF) to IREDA to on-lend to viable renewable energy projects.
- 'Generation-based incentive' reintroduced for wind energy projects and ₹ 800 crore allocated for this purpose.

Regions Grant Fund

- New criteria for determining backwardness to be evolved and reflect them in future planning and devolution of funds.

Skill Development

- Target of skilling 50 million people in the 12th Plan period, including 9 million in 2013-14.

Defence

- Allocation for Defence increased to ₹ 2,03,672 crore including ₹ 86,741 crore for capital expenditure.
- Constraints not to come in the way of providing any addition requirement for the security of nation.

Science and Technology

- Despite constraints substantial enhancements given to Science and Technology, Space and Atomic Energy.
- ₹ 200 crore to be set apart to fund organisations that will scale up S&T innovations and make these products available to the people.

Institutions of Excellence

- A grant of ₹ 100 crore each made to 4 institution of excellence.

Sports

- National Institute of Sports Coaching to be set up at Patiala at a cost of ₹ 250 crore over a period of three years.

Broadcasting

- All cities having a population of more than 1,00,000 will be covered by private FM radio services.

Panchayati Raj

- Augmentation in the Budget allocation of Rajiv Gandhi Panchayat Sashaktikaran Abhiyan (RGPSA) to ₹ 455 crore in 2013-14. An additional ₹ 200 crore proposed to be provided.

Post Offices

- An ambitious IT driven project to modernise the postal network at a cost of Rs. 4,909 crore. Post offices to become part of the core banking solution and offer real time banking services.

Ghadar Memorial

- Government to fund the conversion of the Ghadar Memorial in San Francisco into a museum and library.

Central Schemes

- Centrally Sponsored Schemes (CSS) and Additional Central Assistance (ACA) Schemes to be restructured into 70 schemes. Central fund for the schemes to be given to the States as part of central plan assistance.

TAX PROPOSALS

DIRECT TAXES

- Little room to give away tax revenues or raise tax rates in a constrained economy.
- No case to revise either the slabs or the rates of Personal Income Tax. Even a moderate increase in the threshold exemption will put hundreds of thousands of Tax Payers outside Tax Net.
- However, relief for Tax Payers in the first bracket of ₹2 lakhs to ₹ 5 lakhs. A tax credit of ₹ 2000 to every person with total income upto ₹5 lakhs.
- Surcharge of 10 percent on persons (other than companies) whose taxable income exceed ₹ 1 crore to augment revenues.
- Increase surcharge from 5 to 10 percent on domestic companies whose taxable income exceed ₹ 10 crore.
- In case of foreign companies who pay a higher rate of corporate tax, surcharge to increase from 2 to 5 percent, if the taxabale income exceeds ₹ 10 crore.
- In all other cases such as dividend distribution tax or tax on distributed income, current surcharge increased from 5 to 10 percent.
- Additional surcharges to be in force for only one year.
- Education cess to continue at 3 percent.
- Permissible premium rate increased from 10 percent to 15 percent of the sum assured by relaxing eligibility conditions of life insurance policies for persons suffering from disability and certain ailments.
- Contributions made to schemes of Central and State Governments similar to Central Government Health Scheme, eligible for section 80D of the Income tax Act.
- Donations made to National Children Fund eligible for 100 percent deduction.
- Investment allowance at the rate of 15 percent to manufacturing companies that invest more than ₹ 100 crore in plant and machinery during the period 1.4.2013 to 31.3.2015.
- 'Eligible date' for projects in the power sector to avail benefit under Section 80-IA extended from 31.3.2013 to 31.3.2014.
- Concessional rate of tax of 15 percent on dividend received by an Indian company from its foreign subsidiary proposed to continue for one more year.
- Securitisation Trust to be exempted from Income Tax. Tax to be levied at specified rates only at the time of distribution of income for companies, individual or HUF etc. No further tax on income received by investors from the Trust.

Budget 2013: Tax Proposals

- Investor Protection Fund of depositories exempt from Income-tax in some cases.
- Parity in taxation between IDF-Mutual Fund and IDF-NBFC.
- A Category I AIF set up as Venture capital fund allowed pass through status under Income-tax Act.
- TDS at the rate of 1 percent on the value of the transfer of immovable properties where consideration exceeds ₹ 50 lakhs. Agricultural land to be exempted.
- A final withholding tax at the rate of 20 percent on profits distributed by unlisted companies to shareholders through buyback of shares.
- Proposal to increase the rate of tax on payments by way of royalty and fees for technical services to non-residents from 10 percent to 25 percent.
- Reductions made in rates of Securities Transaction Tax in respect of certain transaction.
- Proposal to introduce Commodity Transaction Tax (CTT) in a limited way. Agricultural commodities will be exempted.
- Modified provisions of GAAR will come into effect from 1.4.2016.
- Rules on Safe Harbour will be issued after examining the reports of the Rangachary Committee appointed to look into tax matters relating to Development Centres & IT Sector and Safe Harbour rules for a number of sectors.
- Fifth large tax payer unit to open at Kolkata shortly.
- A number of administrative measures such as extension of refund banker system to refund more than ₹ 50,000, technology based processing, extension of e-payment through more banks and expansion in the scope of annual information returns by Income-tax Department.

INDIRECT TAXES

- No change in the normal rates of 12 percent for excise duty and service tax.
- No change in the peak rate of basic customs duty of 10 percent for non-agricultural products.

Customs

- Period of concession available for specified part of electric and hybrid vehicles extended upto 31 March 2015.
- Duty on specified machinery for manufacture of leather and leather goods including footwear reduced from 7.5 to 5 percent.
- Duty on pre-forms precious and semi-precious stones reduced from 10 to 2 percent.
- Export duty on de-oiled rice bran oil cake withdrawn.
- Duty of 10 percent on export of unprocessed ilmenite and 5 percent on export on ungraded ilmenite.
- Concessions to air craft maintenance, repair and overhaul (MRO) industry.
- Duty on Set Top Boxes increased from 5 to 10 percent.
- Duty on raw silk increased from 5 to 15 percent.
- Duties on Steam Coal and Bituminous Coal equalised and 2 percent custom duty and 2 percent CVD levied on both kinds coal.
- Duty on imported luxury goods such as high end motor vehicles, motor cycles, yachts and similar vessels increased.
- Duty free gold limit increased to ₹ 50,000 in case of male passenger and ₹ 1,00,000 in case of a female passenger subject to conditions.

Excise duty

- Relief to readymade garment industry. In case of cotton, zero excise duty at fibre stage also. In case of spun yarn made of man made fibre, duty of 12 percent at the fibre stage.
- Handmade carpets and textile floor coverings of coir and jute totally exempted from excise duty.
- To provide relief to ship building industry, ships and vessels exempted from excise duty. No CVD on imported ships and vessels.
- Specific excise duty on cigarettes increased by about 18 percent. Similar increase on cigars, cheroots and cigarillos.

Budget 2013: Tax Proposals

- Excise duty on SUVs increased from 27 to 30 percent. Not applicable for SUVs registered as taxies.
- Excise duty on marble increased from ₹30 per square meter to ₹ 60 per square meter.
- Proposals to levy 4 percent excise duty on silver manufactured from smelting zinc or lead.
- Duty on mobile phones priced at more than ₹2000 raised to 6 percent.
- MRP based assessment in respect of branded medicaments of Ayurveda, Unani, Siddha, Homeopathy and bio-chemic systems of medicine to reduce valuation disputes.

Service Tax

- Maintain stability in tax regime.
- Vocational courses offered by institutes affiliated to the State Council of Vocational Training and testing activities in relation to agricultural produce also included in the negative list for service tax.
- Exemption of Service Tax on copyright on cinematography limited to films exhibited in cinema halls.
- Proposals to levy Service Tax on all air conditioned restaurant.
- For homes and flats with a carpet area of 2,000 sq.ft. or more or of a value of ₹1 crore or more, which are high-end constructions, where the component of services is greater, rate of abatement reduced from from 75 to 70 percent.
- Out of nearly 17 lakh registered assesses under Service Tax only 7 lakhs file returns regularly. Need to motivate them to file returns and pay tax dues. A onetime scheme called '**Voluntary Compliance Encouragement Scheme**' proposed to be introduced. Defaulter may avail of the scheme on condition that he files truthful declaration of Service Tax dues since 1st October 2007.
- Tax proposals on Direct Taxes side estimated to yield to ₹13,300 crore and on the Indirect Tax side ₹4,700 crore.

Good and Services Tax

- A sum of ₹ 9,000 crore towards the first instalment of the balance of CST compensation provided in the budget.
- Work on draft GST Constitutional amendment bill and GST law expected to be taken forward.