

INDIA BUDGET, 2008-2009

KEY FEATURES

- Customs and Excise concessions for specified life saving and bulk drugs
- Companies in certain businesses allowed weighted deduction of 150% on expenditure on in-house scientific research
- Weighted deduction of 125% on payment to companies in research and development
- Five year tax holiday for Hospitals
- Health care budgetary allocation to be increased by 15%
- Excise duty concession for two wheelers and small cars
- Tax Holiday for two, three & four star hotels in World heritage sites
- Commodity Transaction Tax introduced
- Threshold of exemption from Income Tax increased to Rs.1,50,000, Rs.1,80,000/- for women and Rs.2,25,000/- for senior citizens
- Education allocation is increased by 20%
- A Separate Regulator for the Coal sector
- Separate National Fund for power transmission and distribution
- Measured steps to open up the financial sector
- Corporate bond market to be expanded
- Three more IITs, Sixteen more Central Universities across India
- Rs.60,000/- debt relief package for the small and marginal farmers

DIRECT TAX

(A). Income Tax

- Slabs
 - Threshold of exemption from Income Tax has been increased from Rs.110000 to 1,50,000/-
 - For women Tax Payers, the minimum slab is Rs.1,80,000/-
 - For senior citizens, the threshold is Rs.2,25,000/-.
- Reduction of Rs.15,000/- under Section 80D of the Income Tax Act to an individual paying medical insurance premium of his/her parent or parents.
- Companies in certain businesses to enjoy 150 % deduction on any expenditure in-house scientific research.
- Weighted reduction of 125% on any payment made to companies engaged in research and development (for promoting outsourcing of research).
- Corporate debt instruments in demat form and listed on recognized stock exchanges exempted from TDS.
- Income Tax Rates

- Upto Rs.1,50,000/- (Rs.1,80,000/ for women, Rs.2.25,000 for senior citizens) - Nil
- Rs.1,50,000 upto 3,00,000/- - 10%
- Rs.3,00,00 upto Rs.5,00,000/- - 20%
- Above Rs.5,00,000/- - 30%.

(B). Short Term Capital Gain Tax

- Short Term Capital Gains Tax increased from 10 % to 15%

(C). Corporate Income Tax & Corporate Surcharge Tax

- No change has been effected

(D). Dividend Distribution Tax

- Parent company allowed to set off dividend received from its subsidiary against dividend distributed by the parent company, provided the dividend received has suffered DDT and parent company is not s subsidiary of another company.
- No double taxation of dividend distribution tax

(E). Securities Transaction Tax

- STT to be treated as any other deductible expenditure against business income
- Levy of STT in the case of options to be only on the option premium
- Where the option is not exercised, the liability will be on the seller
- Where the option is exercised, the levy will be on the settlement price and liability will be on the buyer

(F). Commodities Transaction Tax

- Commodities Transaction Tax introduced on the same lines as STT on options and futures.

(G) Banking Cash Transaction Tax

- Banking Cash Transaction Tax to be withdrawn with effect from April 1, 2009.

INDIRECT TAX

(A). Customs Duty

- Peak Customs duty of 10% retained.
- Customs duty on project imports reduced to 5% from 7.5%
- 4 % special CVD on a few specified projects in the power sector
- Customs on steel malting scrap and aluminium scrap reduced from 5 % to nil.
- Customs duty on specified life saving drugs and on the bulk drugs used for the manufactured of such drugs reduced from 10% to 5%

- Duty on vitamin premixes and mineral mixtures reduced from 30% to 20% and on phosphoric acid from 7.5 % to 7%.
- Duty on bactofuges reduced from 7.5 % to nil.
- Nil duty on specified parts of set top boxes and specified raw materials for use in IT/electronic hardware industry.
- Duty on convergence products reduced from 10% to 5%.
- Duty on specified sports goods machinery reduced from 7.5% to 5% and total exemption for raw materials for sports goods.
- Exemption for rough cubic zirconia; duty on polished cubic zirconic and rough coral reduced from 10% to 5%.
- Duty on crude and unrefined sulphur for the fertilizer industry reduced from 5% to 2%.
- Duty exemption on naphtha for use in the manufacture of polymers withdrawn and customs duty of 5% imposed. Naphtha imported for fertilizer production is, however, exempted from customs duty.
- Export duty on conserve chrome ore increased from Rs.2,000 per metric tone to Rs.3,000 per metric tonne.

(B). Excise Duty

- CENVAT for the manufacturing sector reduced from 16% to 14% for all goods.
- Excise duty on all pharmaceutical reduced from 16% to 8%
- Exemption from excise duty or countervailing duty for specified life saving drugs and bulk drugs used for the manufacture of such drugs
- Anti-AIDs drug, Atazanazir as well as bulk drug for its manufacture to be exempt from excise duty
- Duty on buses and their chassis reduced from 16% to 12%
- Small cars to enjoy reduced excise duty of 12% (from 16%); for hybrid cars, excise duty reduced from 24% to 14%.
- Two wheelers and three wheelers to attract reduced excise duty of 12% (from 16%).
- Paper, paper board and articles made therefrom and manufactured out of non-conventional raw materials by units not having an attached bamboo/wood pulp making plant to attract 8% excise duty.
- Excise duty on a few items of mass consumption including composite machines, wireless data cars, packaged coconut water, tea and coffee mixes and puffed rice reduced from 16% to nil.
- Few items including water purification devices, veneers and flush doors, sterile dressing pads, specified packaging material and breakfast cereals to attract a reduced excise duty of 8% (from 16%)
- Excise duty exemption, on end-use basis, on refrigeration equipment, above 2TR utilizing power of 50 KW and above.
- Bulk cement to attract excise duty of Rs.4000 per MT or 14% ad valorem, whichever is higher. Cement clinkers to attract excise duty of Rs.450 MT.
- Excise duty on packaged software increased from 8% to 12%
- Both Filter and non-filter cigarette to have the same excise duty rate
- Ad Valorem part of excise duty on unbranded petrol and unbranded diesel to be replaced by an equivalent specific duty of 1.35 per litre.
- Specific duty of Rs.14.35 per litre on unbranded petrol and Rs.4.60 per litre on unbranded diesel.

- Excise duty called NCCD imposed on polyster filament yarn removed.

(C). Service Tax

- Four Services brought under service tax net:
 - Asset management service under ULIP;
 - Services provided by stock/commodity exchanges and clearing houses;
 - Right to use goods, where VAT is not payable;
 - Customised software.
- Threshold limit of exemption for small service providers increased from Rs.8,00,000/- per year to Rs.10,00,000/- per year.

(D). Central Sales Tax

- Central Sale tax reduced from 3% to 2% with effect from April 1,08

(G). Charitable Organization

- Charitable organizations still exempted from paying tax, except for the income derived from profits/commercial earnings.

SECTORAL CHANGES

Pharmaceuticals

- Excise duty on all pharmaceutical products reduced from 16% to 8%
- Customs duty reduction for specified life saving drugs (6 in number) reduced from the present 10% to 5%.
- Total Exemption from excise duty or countervailing duty for specified life saving drugs and bulk drugs used for the manufacture of such drugs
- Total Exemption from excise duty for anti AIDS drug, Atazanazir, as well as bulk drugs for its manufacture
- Companies in certain businesses to enjoy weighted deduction of 150 % on any expenditure on in-house scientific research.
- Weighted reduction of 125% on any payment made to companies engaged in research and development (for promoting outsourcing of research).

Health-Care

- Sub-Section 11(C) to be inserted in Section 80-IB of the Indian Income Tax Act to grant a five year tax holiday to encourage hospitals to be set up anywhere in India except in certain specified urban conglomerates.
- Health Care allocation increased by 15%.

Power

- The eleven Plan target for additional power generation capacity is 78,577/- MW.
- Five Ultra Mega Power Projects (UMPP) at Chattisgarh, Karnataka, Maharashtra, Orissa and Tamil Nadu in the pipeline.
- Ultra Mega Power Project at Tilaiya to be awarded shortly.
- Rs.800 Crore to be allocated in 2008-2009 for the Accelerated Power Development and Reforms Project.
- National Fund for transmission and distribution reforms to be created.
- 4 % special CVD on a few specified projects.

Roads

- Allocation for the National Highway Development Program to be enhanced from Rs.10,867 crore in 2007-08 to Rs.12,966 crore next year.

Oil and Gas

- The 7th New Exploration Licensing Policy launched in December 2007 for 57 exploration blocks to attract investment of US\$3.5 billions.

Coal

- Following notification of a new Coal Distribution Policy in October, 2007, a separate Coal Regulator would be appointed.

Textiles

- Integrated Textile Parks and Technology Upgradation Fund to be continued during the 11th Plan period.
- 30 integrated textile parks approved and four parks have commenced production.
- Six Mega Clusters proposed – two for handlooms, two for powerlooms and two for handicrafts.

Foreign Trade

- Govt. to respond sympathetically to pressures to merchandise exports due to appreciation of rupee.

Banking and Finance

- Commercial banks to add at least 250 rural household accounts every year at each of their rural and semi urban branches
- Commercial banks to meet entire credit requirements of SHG members, namely, (a) income generation activities, (b) social needs like housing, education, marriage etc. and (c) debt swapping.

Capital Market

- Measures to develop bond, currency and derivatives markets that includes launching exchange traded currency and interest rate futures and developing a transparent credit derivatives market.
- Measures to enhance tradability of domestic convertible bonds by putting in place a mechanism that will enable investors to separate embedded equity option from convertible bond and trade it separately.
- Measures to encourage development of a market based system for classifying financial instructions based on their complexity and implicit risks.

Dairy Industry

- Duty on bactofuges to be reduced from 7.5 % to nil
- Reduction to increase shelf life of milk and benefit the dairy industry

Information Technology

- Allocation to the Department of Information Technology to be enhanced from Rs.1,500 crore in 2007-08 to Rs.1,680/- in 2008-09.
- Scheme for 100,000 Broadband Internet-enabled Common Service Centres in rural area and another scheme for State Wide Area Networks are under implementation.
- New Scheme for State Data Centres has been approved.

Automobile

- Excise on hybrid cars reduced from 24% to 14%.
- Excise on two wheelers reduced to
- Excise on small cars reduced to 12% from 16%.

Water Purification

- Excise duty reduced from 16 to 8 per cent on water purification items.

Agriculture

- 500 soil testing centres to be set up with Central Assistance
- National Horticulture allocation increased to Rs.1100 crore
- Complete debt waiver and debt relief of all loans for small and marginal farmers (owning upto 2 hectares)
- Implementation of debt waiver and debt relief to be completed by June, 2008 and farmers would be eligible for fresh loans thereafter.

Education

- Rs 750 crore for upgradation of 300 ITIs in 25 districts
- 20% increase in budgetary allocation to 34,400 cr.

- Sixteen Central Universities to be set up
- Three IITs – Bihar, Andhra Pradesh and Rajasthan.
- National Knowledge Network (digital) across all educational institutes.
- Schools of architecture and planning in Bhopal and Vijaywada. More institutes of higher education to be opened.
- Rs 100 crore for the Information Technology Ministry to set up national knowledge centres.
- Indian Institutes of Science Education and Research to be set up at Bhopal and Thiruvananthapuram

Social Security

- Three schemes to be introduced for providing social security to unorganised sector workers
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INDIA ECONOMIC SURVEY, 2008-2009

FINDINGS:

- ❖ FY'08 economic growth at 8.7%, against 9.6% a year ago
- ❖ Cumulative increase in non-food credit by Jan 4, 2008 was 11.8% as against 17.5% a year ago
- ❖ Capital inflows rose to 7.7% of GDP in first half of FY'08 as against 5.1% in FY'07
- ❖ GDP projected at Rs. 46,93,602 crore (mkt price) in 2007-08
- ❖ FDI inflows reached \$11.2 bn, outward investments surged to \$7.3 bn in April-September
- ❖ Exports reached \$111 bn in first 9 months of FY'08; Imports grew 25.9%
- ❖ Surge in capital inflows, including FDI, to continue in medium term
- ❖ Investment climate full of optimism
- ❖ Acceleration in domestic investment, savings drove growth
- ❖ Holding 9% growth a challenge, two digit growth even greater
- ❖ Inflation rate to decline from 5.6% in FY'07 to 4.4% in '08
- ❖ Inflation and infrastructure biggest growth challenges
- ❖ Skill dearth causing attrition, wage hike, pushing inflation
- ❖ Farm growth in FY'08 seen at 2.6%, against 3.8% a year ago
- ❖ Foodgrain output seen at 219.3 MT against 217.3 MT in FY'07
- ❖ Macroeconomic fundamentals continue to inspire confidence
- ❖ Industrial growth slower at 9% in first 9 months of FY'08
- ❖ Costly rupee, sluggish consumer goods and infrastructure is a concern
- ❖ Rupee rose by 8.9% against USD during current fiscal
- ❖ Average credit growth slowed to 26.8% in FY'07, down in '08
- ❖ Forex reserves up by \$91.6 bn to \$290.8 bn on Feb 8, 2008
- ❖ Growth deceleration spread across most sectors, barring power, community services and composite category of trade, hotels, transport and communications

REFORM PRESCRIPTIONS:

- ❖ Decontrol Pharmaceutical, sugar and fertilizer segments
- ❖ Disinvest upto 10% in Non-Navratna Profit making PSUs
- ❖ Allow private investment in coal mining to enhance coal recovery
- ❖ Sell old oil fields to private companies for enhanced recovery
- ❖ Allow foreign equity in all retail trade and 100% FDI in branded specialty chains
- ❖ Raise FDI cap in rural insurance covering health, weather and such insurance to 51% and FDI cap in other insurance sectors to 49%
- ❖ Allow 100 per cent FDI in greenfield rural-agricultural banks
- ❖ Allow free entry of private and joint venture freight companies into new freight corridors built by railways
- ❖ Freely allow A-Grade foreign universities and encourage B and C Grade foreign universities, subject to tighter regulation

- ❖ State Electricity Regulatory Commissions should notify rational, credible, cross subsidy to make open-access viable and through free permission to distributors to connect by wire to Govt. electricity pillars
 - ❖ Increase weekly work hours to 60 hours from 48 hours and daily limit to 12 hours under the Factories Act, 1948
 - ❖ Enactment of a new law for early exit and change of management of sick companies
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