



## Annual Budget 2007-08 of India Announced



Indian Finance Minister, Mr. P. Chidambaram leaving North Block for Parliament House to present the Budget 2007-08, in New Delhi on February 28, 2007. **Photo credit: PIB**

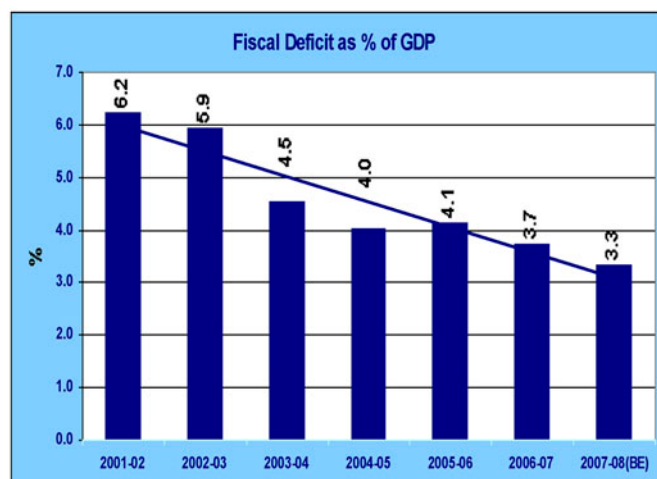
Finance Minister of India Mr. P. Chidambaram presented proposals for Annual Budget 2007-08 of India on February 28, 2007 in the Indian Parliament at New Delhi. The total expenditure estimated at approx. \$155 bln. with plan expenditure at approx. \$47 bln. and Non-Plan Expenditure at approx. \$108 bln. Revenue receipts has been estimated at approx. \$110 bln. and capital receipts at approx. \$11 bln. This will leave a Fiscal Deficit of approx. \$34 bln.

### Highlights of the Budget

- Fiscal deficit to be reduced to 3.3% of the GDP from 3.7% of GDP in 2006-07.
- Collection of tax revenue to be increased by more than 16% in 2007-08. Tax revenue estimated to have increased by more than 28% in 2006-07.
- GDP growth increased from 9% in 2005-06 to 9.2% in 2006-07 driven by manufacturing growth at 11.3% and services sector growth at 11.2%.
- Per capita income in real terms increased by 7.4% in 2005-06
- Savings rate estimated at 32.4% and the investment rate at 33.8% in 2005-06
- Foreign direct investment in 2006 amounted to \$12.5 bln, thereby outpacing the portfolio investment of \$6.8 bln.

### Key Fiscal Proposals

- Peak customs duty for non-agricultural items reduced from 12.5% to 10% with reduction in a number of intermediate and basic goods below 10%.
- Excise duty reduced on a number of items
- More services brought under Service tax net.
- Dividend distribution tax raised from 12.5% to 15%
- Education cess increased from 2% to 3%.
- Surcharge on income tax removed on all firms and companies with taxable income of less than Rs. 10 million
- The allocation for Gross Budgetary support raised by 18.7% with special focus on Bharat Nirman (the Indian Rural infrastructure project), education, health and family welfare.



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## Detailed Tax proposals

### Indirect taxes:

#### Customs

- Reduction in peak rate for non-agricultural products from 12.5% to 10%.
- Reduction in duty on most chemicals and plastics from 12.5% to 7.5%; on seconds and defectives of steel from 20% to 10%.
- All coking coal irrespective of ash content to be fully exempt.
- Reduction in duty on polyester fibres, yarns and raw materials from 10% to 7.5%; on cut and polished diamonds from 5% to 3%; on rough synthetic stones from 12.5% to 5%; and on unworked corals from 30% to 10%.
- Reduction in duty on drip irrigation systems, agricultural sprinklers and food processing machinery from 7.5% to 5%.
- Reduction in general rate of import duty on medical equipment to 7.5%.
- Crude and refined edible oils to be exempt from additional CV duty of 4%; reduction in duty on sunflower oil, both crude and refined, by 15 percentage points.
- Reduction in duty on pet foods from 30% to 20%;
- reduction in duty from 7.5% to 5% on 15 specified machinery for pharmaceutical and biotechnology sector.
- A concessional rate of 5% customs to be extended to all research institutions registered with the Directorate of Scientific and Industrial Research;
- Duty of 3% (WTO bound rate) to be levied on all private import of aircraft including helicopters; such import to also attract countervailing duty and additional customs duty,
- Duty of Rs.300 (\$6.8 approx.) per metric tonne to be levied on export of iron ores.

#### Excise

- Reduction in ad valorem component of excise duty on petrol and diesel from 8% to 6%
- Exemption limit for small scale industry (SSI) to be raised from Rs.10 million to Rs.15 million;
- Change in the Reduction in the rate of duty on cement sold in retail, and
- Specific rates of duty on cigarettes to be increased by about 5%;

#### Service tax

- Exemption limit for small service providers raised from Rs.400,000 (approx. \$9090) to Rs.800,000 (approx. \$18,180)
- More services brought under tax net.

#### Central Sales Tax

- Central Sales Tax rate to be reduced from 4% to 3% with effect from April 1, 2007;
- A roadmap for introducing a national level Goods and Services Tax (GST) with effect from April 1, 2010 to be prepared.

#### Direct Taxes

- Dividend distribution tax raised from 12.5% to 15%
- Education cess increased from 2% to 3%.
- Surcharge on income tax removed on all firms and companies with taxable income of less than Rs. 10 million (approx. \$23,000)
- Threshold limit of exemption for all assesseees of income tax increased by Rs.10,000 (approx. \$230.00),
- Concessions under section 80IA for infrastructure facilities to be extended to cross country natural gas distribution network,
- A five year income tax holiday for two, three or four star hotels and for convention centres with a seating capacity of not less than 3,000 in National Capital Territory of Delhi and adjacent districts that would come up during April 1, 2007 to March 31, 2010,
- Depreciation allowance of 150% under section 35(2AB) for expenditure incurred on scientific research in biotechnology, pharmaceuticals, IT, electronics and telecommunications etc. by companies to be extended for five more years until March 31, 2012,

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- Minimum Alternate Tax (MAT) to be extended to income in respect of which deductions claimed under sections 10A and 10B for newly established undertakings in free trade zone and newly established hundred per cent export-oriented undertaking respecti

## Major Sector Specific Proposals

### Agriculture

- Agricultural farm credit to be increased and 5 million new farmers to be added to banking system.
- Irrigation outlay to be increased by 54.9%.
- A new insurance scheme called 'Aam Admi Bima Yojana' (common men's insurance plan) to cover rural landless households with central government to bear 50% of the premium.

### Infrastructure

- For Power, two Ultra Mega Power Projects have been awarded. Seven more are under process of which two are likely to be awarded by July, 2007. Budgetary support for Accelerated Power Development and Reforms project increased by about \$1.5 bln. Allocation for Rajiv Gandhi Grameen Vidyutikaran Yojana increased by 32.8%.
- Mutual Funds to be permitted to launch and operate dedicated infrastructure funds.

### Financial sector

- A Financial Sector (Development and Regulation) Bill and a comprehensive Bill to amend insurance laws to be introduced in Budget Session,
- Permanent Account Number (PAN) to be made sole identification number for all participants in Indian securities market,
- Indian investors to be permitted to invest in overseas securities upto \$50,000 per year through Indian mutual funds.
- India International Development Cooperation Agency (IIDCA) to be set up.

Detailed Budget documents are available at: [www.indiabudget.nic.in](http://www.indiabudget.nic.in)

## RAILWAY BUDGET 2007-08

Indian Railway Budget was presented in Indian Parliament by the Railway Minister Mr. Lalu Prasad Yadav on February 26, 2007.

Indian Railways have shown record breaking performance in 2006-07. Gross Traffic Revenues in 2006-07 projected at Rs 63,120 crore (approx. \$14.3 bln) which is 16% higher than the previous year. Railways' Cash Surplus before Dividend is expected to be Rs.20,063 crore (approx. \$4.5 Bln.) in 2006-07.

Major changes in passenger fares and freight rates announced include reduction of passenger fares in all classes and trains by 2% – 8%. Freight rates reduced for diesel and petrol by 5%, and or iron ore and limestone by 6%. Various freight discount rates for utilizing the empty return running of wagons and for utilizing unutilized route announced.

Other major announcements include upgradation of freight terminals, proposed introduction of triple stack and double stack containers, encouraging wagon manufacturers to design wagons with higher payload and new technology. Public-private partnerships projects to play an important role. Construction of Eastern and Western Dedicated Freight Corridors at a cost of Rs 30,000 crore (approx. \$6.8 bln.) will commence from 2007-08 for completion during the 11th plan.

Details of the Railway Budget are available at: <http://www.indianrailways.gov.in/>