

Annual Budget 2008-09 of India Announced



Indian Finance Minister, Mr. P. Chidambaram leaving North Block for Parliament House to present the Budget 2008-09, in New Delhi on February 29, 2008.

Finance Minister of India Mr. P. Chidambaram presented the Annual Budget for 2008-09 on February 29, 2008 in the Indian Parliament at New Delhi. The total expenditure estimated at Rs 750,885 crore (approx \$187 billion) with plan expenditure of Rs 243,386 crore (approx \$61 billion) and Non-Plan Expenditure of Rs 507,499 crore (approx \$126 billion). Revenue receipts have been estimated at Rs 602,935 crore (approx \$150 billion). The revenue deficit for 2007-08 is 1.4% as against the budgeted estimate of 1.5%, the fiscal deficit for 2007-08 is 3.1% as against the budgeted estimate of 3.3%, meeting the target for fiscal deficit under Fiscal Responsibility and Budget Management (FRBM).

Highlights of the Budget

- Fiscal deficit for 2008-09 estimated at 2.5% of GDP as against 3.1% of GDP in 2007-08. Revenue deficit for 2008-09 estimated at 1.0% of GDP.
- GDP growth during the last three years has been 7.5%, 9.4% and 9.6% respectively resulting in an average growth rate of 8.8%. According to the advance estimates, GDP growth during 2007-08 is estimated at 8.7% driven by services and manufacturing which are estimated to grow at 10.7% and 9.4% respectively.
- Tax to GDP ratio which was 9.2% in 2003-04 is set to rise to 12.5% in 2007-08.
- Savings rate estimated at 35.6% and investment rate at 36.3% in 2007-08 up from 34.8% and 35.9% in 2006-07.
- Foreign Direct Investment between April-December 2007 totalled \$12.7 billion and net FII investment was \$18 billion.
- The allocation for Gross Budgetary Support increased by Rs 38,286 crore (\$9.57 billion) to Rs 243,386 crore (\$60.85 billion) in 2008-09.
- Launch of Rashtriya Krishi Vikas Yojana with allocation of \$16.5 billion and National Food Security Mission under National Policy for Farmers.
- Scheme of Debt waiver and relief for Farmers. Total value of overdue loans waived estimated at Rs 50,000 crore (\$12.5 billion); one time settlement relief estimated at Rs 10,000 crore (\$2.5 billion).

Key Fiscal Proposals:

- Excise duty reduced on a number of items
- General CENVAT rate on all goods reduced from 16 per cent to 14 per cent to give a stimulus to the manufacturing sector.
- More Services brought under the service tax net.
- No change in corporate income tax rates and rates of surcharge.
- Banking Cash Transaction tax to be removed with effect from April 1, 2009.
- Roadmap for goods and services tax being prepared for introduction of GST from April 2010.

(Continued on next page)

A publication of the Embassy of India, Washington, DC

Detailed Tax Proposals

Indirect Taxes Customs

- No change in the peak rate of customs duty.
- 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 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.
- 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 (for ICE Convergence) 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

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 small cars and two wheelers/three wheelers from 16 per cent to 12 per cent and on hybrid cars from 24 per cent to 14 per cent.
- Excise duty reduced from 16 per cent to nil on some mass consumption items such as composting machines, wireless data cards, packaged coconut water, tea and coffee mixes, and puffed rice.
- Excise duty rates on bulk cement and packaged cement brought on par;
- Excise duty increased on packaged software from 8 per cent to 12 per cent, bringing it at par with customised software.
- Ad valorem part of the excise duty on unbranded petrol and unbranded diesel abolished and replaced by an equivalent specific duty; there will be no impact on retail prices.

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.
- Threshold limit of exemption for small service providers increased from Rs. 8 lakhs per year (approx \$20,000) to Rs. 10 lakh (approx \$25,000) per year; about 65,000 small service providers go out of the tax net.

Direct Taxes

- No change in the corporate income tax rates.
- No change in the rate of surcharge.
- Threshold limit of exemption from personal income tax in the case of all assesses increased to Rs 150,000 (approx \$3750). Other income tax slabs raised- 10% for income Rs 150,001 to Rs 300,000 (approx \$7500), 20% for income Rs 300,001 to Rs 500,000 (approx \$12,500) and 30% for income Rs 500,001 and above.
- Threshold limit increased from Rs. 145, 000 (\$3625) to Rs. 180,000 (\$4500) for women assesses and from Rs. 195,000 (\$4875) to Rs. 225,000 (\$5625) for senior citizens
- 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”.
- Corporate debt instruments issued in demat form and listed on recognised stock exchanges exempted from TDS.
- 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 Dividend Distribution Tax and the parent company is not a subsidiary of another company.
- Coir Board exempted from income tax, included in Section 10 (29A)
- Short term capital gains tax increased from 10% to 15%.
- STT (Securities Transaction Tax) 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) on commodities trading to be introduced on the same lines as STT on options and futures.

(Continued on next page)

CST and a Roadmap towards GST

- Central Sales Tax rate being reduced from 3 per cent to 2 per cent from April 1, 2008 in accordance with the roadmap for CST.
- Roadmap for Goods and Service Tax being prepared for introduction of GST from April 1, 2010.

Major Sector Specific Proposals

Agriculture:

- Launch of Rashtriya Krishi Vikas Yojana with an outlay of approx \$16.5 billion and National Food Security Mission under the National Policy for Farmers in the Eleventh Five year plan.
- Agriculture credit expected to grow to Rs 2,40,000 crore (\$70 billion) by March 2008.
- To achieve 4% growth in Agriculture, Gross Capital Formation in Agriculture targeted to increase to 16% in XI Five year plan.
- The outlay for Accelerated Irrigation Benefit Programme increased to Rs 20,000 crore (\$5 billion) from Rs 10,000 crore (\$2.5 billion) in 2007-08.
- Centrally sponsored scheme for micro irrigation introduced with a target of covering 4,00,000 hectare

Infrastructure:

- Corpus of Rural Infrastructure Development Fund (RIDF-XIV) raised to Rs 14,000 crores (\$3.5 billion) in 2008-09.
- Fourth Ultra Mega Power Project (UMPP) at Talaiya to be awarded shortly. Chattisgarh, Karnataka, Maharashtra, Orissa and Tamil Nadu urged to bring five more UMPPs to the bidding stage by extending required support.
- National fund for transmission and distribution reform created with Rs 800 crore (\$200 million) to be allocated for Accelerated Power Development and Reform Project (APDRP) in 2008-09.
- New coal regulator to be appointed.
- The allocation for National Highways Development Project (NHDP) enhanced to Rs 12,966 cr (\$3.24 billion) in 2008-09 from Rs 10,867 crore (\$2.7 billion) in 2007-08.

Financial Sector:

- Measures to expand the market for corporate bonds by launching exchange traded currency and interest rate futures and developing transparent credit derivatives market with appropriate safeguards.
- Requirement of Permanent Account Number (PAN) extended to all transactions in financial markets subject to appropriate threshold limits.
- India does not have a seamless national market for securities on account of differences among states on applicability/rates of stamp duty. Empowered Committee of State Finance Ministers to be requested to work with Central government to create pan Indian market for securities that will expand the market base and enhance revenues of state governments.

Detailed Budget documents are available at <http://indiabudget.nic.in/ub2008-09/ubmain.htm>

RAILWAY BUDGET FOR 2008-09

- Indian Railway Budget was announced in Indian Parliament by the Railway Minister Mr. Lalu Prasad Yadav on February 26, 2008.
- Indian Railways have shown a record breaking performance in 2007-08. Gross Traffic Receipts in 2008-09 is projected at Rs 81,901 crores (\$20.47 billion). Railways' Cash Surplus before Dividend is expected to Rs 25,000 crore (approx \$6.25 billion) in 2007-08.
- Major changes in passenger and freight fares were announced. This includes a 5% discount across the board for passenger fares beyond Rs 50/- for all non suburban second class. Freight rates reduced for petrol and diesel reduced by 5% and 14% reduction in freight rate of fly ash.
- The annual plan for Rs 37,500 crores (approx \$9.38 billion) is the largest annual plan so far. The thrust areas include enhancement of high density network routes, improvement and expansion of traffic facility and network, construction of flyovers, bypasses and upgradation of goods sheds.
- Public Private Partnership schemes to be launched for attracting Rs 1,00,000 crores (\$25 billion) over the next five years for developing world class stations and other logistics.
- The other initiatives include top priority to port rail connectivity projects, work on Eastern Freight corridor from Ludhiana to Kolkata and Western Freight corridor from Delhi to Mumbai to start in 2008-09, formulation of New Wagon leasing policy and Wagon investment scheme formulated to increase availability of wagons in the system.

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