



## **Highlights of the Union Budget 2012-13**

### **GROWTH PROSPECTS**

- 1) GDP growth is expected to be 7.6 per cent (+ 0.25 percent) during 2012-13.
- 2) Agriculture and services continuing to perform well, India's slowdown can be attributed to weak industrial growth.
- 3) Growth recovery, Private investment, Supply bottlenecks, Malnutrition and Governance matters are the five objectives of the budget 2012-13.

### **GOVERNANCE**

- 1) For better e-governance a central "Know Your Customer" depository to be developed.
- 2) Government will bring a White Paper on Black Money.
- 3) UID-Aadhar to get adequate funds for enrolment of 40 crore persons.
- 4) The central plan scheme monitoring system would be expanded to facilitate better tracking and utilisation of funds released by the central government.
- 5) Amendment to the Fiscal Responsibility and Budget Management Act, 2003 (FRBM Act) proposed as part of Finance Bill.
- 6) New concepts of "Effective Revenue Deficit" and "Medium Term Expenditure Framework" introduced.

### **AGRICULTURE AND PRIORITY SECTOR**

- 1) Mobile based fertilizer management system has been designed to provide end-to-end information on the movement of fertilisers and subsidies from the manufacturer to the retail level; LPG transparency portal has been launched to improve customer service and reduce leakage; scaling up and rolling out of Aadhar enabled payment for government schemes in at least 50 districts.
- 2) Revised Guidelines will be issued on priority sector lending based on a committee set up by RBI report.
- 3) Irrigation, Terminal markets, Common Infrastructure in agriculture markets, soil testing in laboratories and capital investment in fertilisers will be eligible for Viability Gap Funding.
- 4) Financial package of Rs. 3,884 crore for waiver of loans to handloom weavers and their cooperative societies; mega handloom clusters in

Andhra, Jharkhand; weaver service centres in Mizoram, Nagaland and Jharkhand ; power loom mega cluster in Maharashtra; Rs. 500 crore pilot schemes for geo-textiles in North-Eastern region.

- 5) Allocation to agriculture enhanced; RKVY gets Rs. 9,217 crore; BGREI gets Rs. 1,000 crore; Rs.2242 crore project to improve dairy productivity; Rs. 500 crore for coastal aquaculture.
- 6) Bharat Livelihood Foundation to be established to support livelihood interventions particularly in tribal areas.
- 7) Interest subvention for short-term crop loans to farmers at 7 per cent interest continues; additional 3 per cent for prompt paying farmers.
- 8) Rs. 200 crore for awards to incentivise agricultural research.

### **HOUSING AND INFRASTRUCTURE SECTOR**

- 1) Projects covering length of 8800 km to be awarded under NHDP against 7,300 km during 2011-12.
- 2) Interest subvention of 1 percent on housing loans upto Rs. 15 lakh extended for one more year.
- 3) Tax Free Bonds of Rs. 60,000 crore to be allowed for financial infrastructure projects.
- 4) Infrastructure debt fund to tap overseas market for long tenor pension and insurance fund has been established.
- 5) ECB in road construction projects is proposed.
- 6) Allocation of Road Transport and Highways Ministry enhanced by 14 per cent to Rs. 25,360 crore.
- 7) Investment in 12th Plan in infrastructure to go upto Rs. 50,00,000 crore; half of this is expected from private sector.
- 8) Direct import of ATF has been permitted by Indian carriers as actual users.
- 9) ECB for working capital requirement of the airline industry has been proposed for a period of one year.
- 10) ECB in low affordable housing projects proposed.
- 11) Credit guarantee trust fund to ensure better flow of institution credit to housing loan proposed.
- 12) India opportunities venture fund with SIDBI has been proposed to enhance availability of equity to MSME sector.
- 13) Ministries and CPSEs to make a minimum of 20% of their annual purchase from MSEs.
- 14) Government is focused on FDI in multi-brand retail and efforts will be made to reach broad based consensus.
- 15) Provisions under rural housing fund increased to Rs. 4,000 crore from Rs. 3,000 crore.

### **PUBLIC WELFARE**

- 1) 34 per cent increase in allocation to National Rural Livelihood Mission, to Rs. 3915 crore.

- 2) Widow pension and disability pension raised from Rs. 200 to Rs. 300 per month.
- 3) Grant on death of primary breadwinner of a BPL family in the age group 18-64 years doubled to Rs. 20,000.
- 4) National Urban Health Mission is being launched.
- 5) RTE-SSA gets Rs. 25,555 crore allocation, showing an increase of 21 per cent; 6000 schools to be set up at block level as model schools in the 12th Plan; Credit Guarantee Fund to be set up for better flow of credit to students.
- 6) Multi-sectorial programme to address maternal and child malnutrition in 200 high burden districts.
- 7) Scheduled Caste Sub Plan allocation increases by 18 per cent to Rs. 37,113 crore; Tribal Sub Plan by 17.6 per cent to Rs. 21,710 crore.
- 8) National Mission on Food Processing to be started in cooperation with State Governments.
- 9) For generating employment Rs. 1000 crore allocated for National Skill Development Fund.
- 10) Rural drinking water and sanitation gets 27 per cent rise in allocation to Rs. 14,000 crore; PMGSY gets 20 per cent rise to Rs. 24,000 crore.
- 11) Central subsidies to be brought down in the next 3 years.

#### **DEFENCE SECTOR**

- 1) Defence services get Rs. 193407 crore; any further requirement to be met
- 2) 4000 residential quarters to be constructed for Central Armed Police Forces.
- 3) Guidelines have been approved for establishing joint venture companies by Defence public sector undertaking in PPP mode.

#### **BANKING SECTOR**

- 1) Rs. 15,888 crore to be provided for capitalization of public sector banks and financial institutions.
- 2) Swabhimaan (a campaign to extend banking facilities through business correspondents to habitations with population of more than 2000) has covered more than 70000 habitations out of identified 73000 and remaining habitations to be covered by march 31, 2012.
- 3) 81 RRB's have successfully migrated to CBS and has joined the National Electronic Fund Transfer System (NEFT).

#### **CAPITAL MARKET**

- 1) The Budget proposes tax incentive for new investors as well as tries to broaden the investor base and reach of IPOs. IPO equity offer above Rs 10 crore to be made electronically is a big step ahead. Allowing Electronic Voting facility shall provide opportunities for wider shareholder participation.

- 2) Simplification of process of issuing Initial Public Offers (IPOs) and lowering of cost would improve the investment climate in the country.
- 3) Allowing Qualified Foreign Investors (QFIs) to access Indian Corporate Bond market, Tax Free Bonds of Rs. 60,000 crore for financial infrastructure projects; Setting up of Rs. 5,000 crore India Opportunities Venture Fund for MSME sector to help small enterprises, allowing External Commercial Borrowings (ECB) to part finance Rupee debt of existing power projects and Efforts to arrive at broad based consensus with state governments on allowing FDI in multibrand retail up to 51 per cent would boost up market sentiments and improve the depth of capital markets. Removal of restriction on Venture Capital Funds (VCFs) to invest only in nine specified sectors shall promote higher level of investments.

### **DIRECT TAXES**

- 1) The Exemption limit for the general category of individual taxpayers enhanced from Rs. 1,80,000 to Rs. 2,00,000 giving uniform tax relief of Rs.2,000. Further, slab of 20% proposed to increase from 8,00,000 to 10,00,000. It is in line with DTC.
- 2) In another relief to the individual taxpayers, a deduction of up to Rs. 10,000 has been proposed for interest from savings bank accounts. This would help a large number of small taxpayers with salary incomes upto Rs. 5 lakh and interest from savings bank accounts upto Rs. 10,000 as they would not be required to file income tax returns.
- 3) It has also been proposed to allow deduction of Rs. 5,000 for preventive health check-up.
- 4) For senior citizens not having income from business, it has been proposed to exempt them from payment of advance tax.
- 5) A new scheme called Rajiv Gandhi Equity Savings scheme is proposed to encourage flow of saving in financial instruments and improve the depths of domestic capital market. In this Scheme a deduction of 50 per cent to proposed to be allowed to new retail investors, who invest up to Rs 50,000 directly in equities and whose annual income is below Rs 10 lakhs. The scheme will have lock-in period of three years.
- 6) With a view to bring down Tax litigation and provide Tax certainty to the foreign investors, proposed introduction of Advance Pricing Agreement (APA). In Globalized Economy with expanding cross border production chains, APA can significantly bring down tax litigation and provide tax certainty to foreign investors. Though APA has been included in the DTC Bill, 2010 the government has brought forward its implementation by introducing it in the Finance Bill 2012.
- 7) The rate of STT reduced to 0.1% on every cash delivery transaction.
- 8) To provide low cost funds to stressed infrastructure sectors, the rate of withholding tax on interest payments on external commercial borrowings (ECBs) has been proposed to be reduced from 20 per cent to 5 per cent for three years. These sectors are power, airlines, roads and bridges, ports and shipyards, affordable housing, fertilizer and dams.

- 9) To promote higher level of investments, the restriction on Venture Capital Funds (VCFs) to invest only in nine specified sectors has been proposed to be removed.
- 10) It has further been proposed to remove the cascading effect of Dividend Distribution Tax (DDT) in a multi-tier corporate structure. Remove cascading effect of dividend distribution tax.
- 11) Tax rate on dividends at a lower tax rate of 15 per cent as against the tax rate of 30 per cent for one more year i.e. upto March 31, 2013 proposed to continue to allow repatriation of dividends from foreign subsidiaries of Indian companies to India.
- 12) Investment linked deduction of capital expenditure incurred in the businesses of cold chain facility, warehouses for storage of food grains, hospitals, fertilizers and affordable housing at the enhanced rate of 150 per cent, as against the current of 100 per cent. Also new sectors have been proposed to be added for the purposes of investment linked deduction which include bee keeping and production of honey and beeswax, container freight station and inland container depots and warehousing for storage of sugar.
- 13) To deter the generation and use of unaccounted money, a series of measures have been proposed. The measures include:
  - Introduction of compulsory reporting requirement in case of assets held abroad.
  - Allowing for reopening of assessment upto 16 years in relation to assets held abroad.
  - Tax collection at source on purchase, in cash, of bullion or jewellery in excess of Rs. 2 lakh.
  - Tax deduction at source on transfer of immovable property (other than agricultural land) above a specified threshold.
  - Tax collection at source on trading in coal, lignite and iron ore.
  - Increasing the onus of proof on closely held companies for funds received from shareholders as well as taxing share premium in excess of fair market value.
- 14) Taxation of unexplained money, credits, investments, expenditures etc., at the highest rate of 30 per cent irrespective of the slab of income.
- 15) To promote investment in research and development (R&D), the weighted deduction of 200 per cent proposed to extend for R&D expenditure in an in-house facility beyond March 31, 2012 for a further period of five years.
- 16) It has also been proposed to provide weighted deduction of 150 per cent on expenditure incurred for agri-extension services in order to facilitate growth in the agriculture sector.
- 17) For the power sector, besides measures for accessing low cost funds, sunset date to be extended by one year for power sector undertakings so that they can be setup on or before March 31, 2013 for claiming 100 per cent deduction of profits for ten years. Additional depreciation of 20 per cent in the initial year is proposed to be extended to new assets acquired by power generation companies.

- 18) In order to moderate the outgo on profit linked deductions, it has been proposed to extend the levy of Alternate Minimum Tax (AMT) on all persons other than companies, claiming profit linked deduction.
- 19) General Anti Avoidance Rule (GAAR) proposed in order to counter aggressive tax avoidance schemes, while ensuring that it is used only in appropriate cases, by enabling a review by a GAAR panel.
- 20) In order to augment funds for SMEs (Small and Medium Enterprises), on sale of a residential property to be exempted, if the sale consideration is used for subscription in equity of a manufacturing SME company for purchase of new plant and machinery.
- 21) Providing relief to a large number of SMEs, it has been proposed to raise the turnover limit for compulsory tax audit of accounts as well as for presumptive taxation from Rs. 60 lakh to Rs. One crore.

## **INDIRECT TAXES**

### **A) Services Tax**

- 1) Service tax rate is being increased from 10 per cent to 12 per cent, with consequential change in rates for services that have individual tax rates.
- 2) All services will now attract service tax, except those in the negative list. The negative list has 17 heads and includes specified services provided by the government or local authorities, and services in the fields of:
  - Education,
  - Renting of residential dwellings,
  - Entertainment and amusement,
  - Public transportation,
  - Agriculture
  - Animal husbandry.
- 3) In addition to the negative list, there is a list of exemptions which include health care, services provided by charities, religious persons, sportspersons, performing artists in folk and classical arts, individual advocates providing services to non-business entities, independent journalists, and services by way of animal care or car parking. Exemption of the services of business facilitators and correspondents to banks and insurance companies also announced. Construction services relating to specified infrastructure, canals, irrigation works, post-harvest infrastructure, residential dwelling, and low-cost mass housing up to an area of 60 sq.mtr. under the Scheme of Affordable Housing in Partnership are also included in the exemptions. Exemption limit for the monthly charges payable by a member to a housing society raised from Rs. 3,000 to Rs. 5,000.
- 4) Common simplified registration form and a common return for Central Excise and Service Tax, to be named EST-1 proposed. This common return will comprise only one page, which will be a significant reduction from the 15 pages of the two returns at present.
- 5) Exempt the film industry from Service Tax on copyrights relating to recording of cinematographic films.

## **B) Central Excise**

- 1) Standard rate of excise duty raised from 10 per cent to 12 per cent.
- 2) Excise duty on certain categories of cigarettes and bidis, pan masala and chewing tobacco is being increased.
- 3) Silver jewellery will now be fully exempt from excise duty.
- 4) Unbranded precious metal jewellery will attract excise duty on the lines of branded jewellery. Operations are being simplified and measures taken to minimize impact of this provision on small artisans and goldsmiths.
- 5) Large cars currently attract excise duty depending on their engine capacity and length. Rate of duty enhanced from 22 per cent to 24 per cent. In the case of cars that attract a mixed rate of duty of 22 per cent + Rs 15,000 per vehicle, to be increased the duty and switch over to an ad valorem rate of 27 per cent.

## **C) Custom**

- 1) The Budget offers relief to different sectors of economy, especially those under stress. Import of equipment for fertilizer projects are being fully exempted from basic customs duty of 5 per cent for 3 years. Basic customs duty is also being lowered for a number of equipment used in agriculture and related areas.
- 2) No change in peak customs duty of 10 per cent on non-agricultural goods
- 3) Customs duty is being increased on completely built large cars/ SUVs/ MUVs of value exceeding \$40,000.
- 4) In the realm of infrastructure, customs relief is being given to power, coal and railways sectors. While steam coal gets full customs duty exemption for 2 years (with the concessional counter-veiling duty of 1 per cent), natural gas, LNG and certain uranium fuel get full duty exemption this year. Different levels of duty concessions are being provided to help mining, railways, roads, civil aviation, manufacturing, health and nutrition and environment. So as to help modernization of the textile industry, a number of equipment are being fully exempted from basic customs duty, and lower customs duty is being proposed for some other items used by the textile industry.
- 5) Customs duty is being raised for gold bars and coins of certain categories, platinum and gold ore. Customs duty is to be imposed on coloured gem stones.
- 6) Full exemption from basic customs duties has been proposed on waste paper, LCD and LED TV Panels and parts of memory card for mobile phones extend concessional basic customs duty of 5 per cent with full exemption from excise duty/ CVD to six specified life-saving drugs/ vaccines in this year's budget.
- 7) Basic customs duty on soya protein concentrate and isolated soya protein to 10 per cent from the present 30 per cent or 15 per cent respectively. Basic customs duty and excise duty reduced on iodine from 6 per cent to 2.5 per cent. On probiotics, the basic customs duty is now 5 per cent reduced from 10 per cent.
- 8) The duty-free baggage allowance for eligible passengers of Indian origin from Rs.25,000 to Rs. 35,000 and for children upto 10 years from Rs.12,000 to Rs.15,000. The baggage allowance was last revised in 2004.

## **Goods and Service Tax**

The structure of GST Network (GSTN) has been approved by the Empowered Committee of State Finance Ministers, GSTN will be set up as a National Information Utility and will become operational by August 2012. The GSTN will implement common PAN-based registration, returns filing and payments processing for all States on a shared platform. The use of PAN as a common identifier in both direct and indirect taxes, will enhance transparency and check tax evasion.

## **Direct Tax Code**

Tax proposals in Budget 2012-13 mark progress in the direction of movement towards DTC.

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