Grant Thornton

UnionBudget 2009-10

Education

A run Up

The Education sector, which is virtually the base on which the country's economic and social development depends, is by far the largest capitalized space in India with US$30 bn of government spend.

There has been a gradual increase in the budgets over the past several years, with a sum of Rs34,400 crores being allocated for the education sector in 2008-09. A number of significant initiatives have also been taken to improve the overall state of education in the country. Sarva Shiksha Abhiyan, Jawahar Navodaya Vidyalayas, Kasturba Gandhi Balika Vidyalaya, Mid-Day Meal Scheme, are some examples.

At present, there is a large network of schools (approximately 1 million) and higher education institutes (18,000) in India. However, the issues concerning a low enrollment ratio; high percentage of drop outs; the need for greater public spend on school infrastructure; and the ever increasing population represent huge challenges before the country.

Moreover, the K12 segment is subject to monitoring by multiple authorities, and with several regulations in place, the environment i equally complex vis a vis higher and technical education.

Over the past few years, India has seen humungous participation by foreign educational institutions who have entered into mutually beneficial arrangements with Indian institutions, with or without a local physical presence. What has been much discussed but remains elusive is a set of regulations governing foreign service providers and the nature and extent of their activities in India.

Considering the role of education in the overall development of the country, expectations from the budget this year were plenty.

Key Expectations

The aspirations from this budget arose largely in the form of regulatory support, with a few tax benefits being sought by the recipient group. The key expectations include:

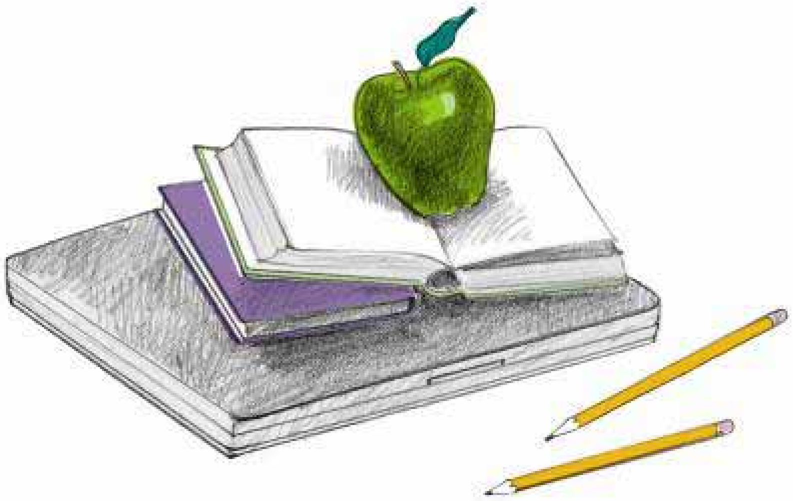
- Increased budgetary allocation to further strengthen the sector, and for creating the requisite infrastructure
- A centralized regulatory body to regulate the sector in place of the existing system of multi-layer approvals. This would encourage and expedite the development of educational institutions, resulting in inclusive growth
- Making higher education more affordable by reducing the rate of interest on educational loans
- Promotion and funding education at grass root level by subsidizing the primary education. This would result in an enhanced access to quality, yet affordable education
- Proper implementation of educational programs like Sarva Shiksha Abhiyan, Jawahar Navodaya Vidyalaya, etc. in terms of fund allocation
- Transparency in spending of 3% education cess collected
- Special training programs for teachers and professors to improve the level and quality of imparting education
- More income-tax deduction in consideration of high educational fees paid by parents
- Incentivization of corporates for training fresh graduates and involve corporates in graduate level education thereby improving young India's employability prospects
- Participation of private sector should be encouraged to increase the speed of reforms
- Deregulation of the overly regulated education sector and provide more autonomy to educational institutions
- Provision of services by foreign universities should be encouraged with clear guidelines. This would result in the availability of global-quality education to Indian students within the country, foreign exchange savings and reduced brain drain.
- Clarification whether institutions providing mandatory coaching for qualifying examination (degree or diploma) are covered under commercial training or coaching services. e.g. Information Technology under Chartered Accountancy course
- List of degrees or diplomas recognized under the law be excluded from commercial training or coaching services

Policy Measures

- The Finance Minister reinforced the need to create a competitive, progressive and well-regulated education system of global standards that meets the aspirations of all segments of the society
- The overall plan budget for higher education is proposed to be increased by Rs.2000 crores over the Interim Budget Estimates (the revised allocation would be Rs.36,400 crores)
- A scheme introduced to provide full interest subsidy for loans during the moratorium period for loans taken from scheduled banks by students from economically weaker sections to pursue any approved courses in technical and professional streams from recognized Indian institutes
- Allocation made for the welfare of minorities includes grants-in-aid to Maulana Azad Education Foundation, Pre-Metric and Post-Metric Scholarships for minorities and allocations for the new proposed schemes of National Fellowship for Students from the Minority Community.
- An allocation of Rs.25 crores each for the two campuses at Murshidabad in West Bengal and Malappuram in Kerala to be established by Aligarh Muslim University has been proposed
- Allocation to "Mission in Education through ICT" scheme increased to Rs.900 crores. Similarly, allocation for setting up and up-gradation of Polytechnics under the Skill Development Mission increased to Rs.495 crores
- A budgetary allocation of Rs.827 crores proposed for achieving one Central University proposed in each uncovered State
- Allocation of Rs.2113 crores for IITs and NITs including provision of Rs.450 crores for setting up new IITs and NITs and Rs.50 crores to Punjab University proposed
- A National Mission for female literacy, with specific emphasis on minorities, Scheduled Caste, Scheduled Tribes and other marginalized groups launched to reduce the current level of female illiteracy

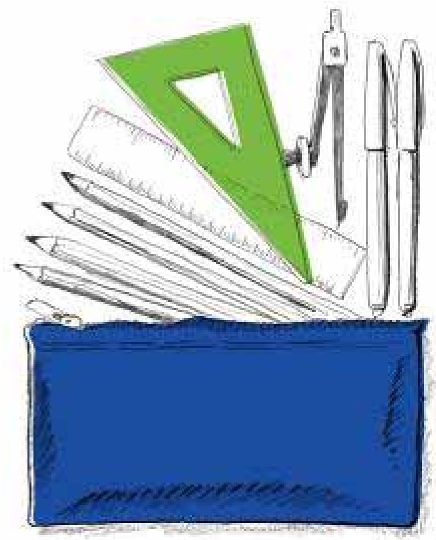
Direct Tax Proposals

- Deduction in respect of interest on loans from taxable income extended to loans taken for pursuing all studies (including vocational studies) after passing the Senior Secondary Examination or the like from specified recognized schools, board and universities. The proposed amendment shall become effective from Assessment Year 2010-11. The earlier provision extended the deduction only for loans taken for specified graduate or post-graduate courses
- Time limit for making application for availing tax exemption during the relevant Financial Year by, inter alia, educational institutes under section 10(23C) proposed to be extended to 30th September of the next Financial Year instead of the during the relevant Financial Year. In effect, this allows an application for approval on a retrospective basis. The proposed amendment shall become effective from 01 October 2009



Indirect Tax Proposals

- Excise duty on paper and paper board stationery increased from 4% to 8%.
- Rate on notebooks and exercise books remains NIL
- Excise duty on ink for writing instruments increased from 4% to 8%



Expert Viewpoint

Overall, the Education sector has got a considerable boost from this budget.

There is a thrust on the higher education sector with a significant increase in planned budgetary allocations and a marked rise in allocations for the IITs and NITs.

Emphasis has been laid on making education inclusive by a) improving the literacy levels of females b) those of the minority communities with the launch of specific initiatives, and c) providing for fiscal incentives to the economically weaker sections of the society through the interest subsidy during the moratorium period on loans taken for certain pre-approved courses.

However, the FM has not provided scheme wise allocation of the budgetary allowances to be used for various key schemes like Sarva Shiksha Abhyan, Jawahar Navodaya Vidyalayas, etc.

Contrary to the expectations, there were no policy announcements with regard to the deregularisation of the education sector to allow more private and foreign participation.

Overall, the FM has provided strong budgetary support to improve the educational infrastructure as well as initiatives to improve literacy levels, however, much would depend upon the actual implementation and the times to come would reveal the real efficacy of the pronouncements

Our offices

BANGALORE
3274/A, 11th Main
HAL 2nd Stage
Indiranagar
Bangalore 560 008

CHANDIGARH
SCO 17
2nd Floor
Sector 17 E
Chandigarh 160 017

CHENNAI
Unit nos. 13, 14 and 16 11,
Thiru-vi-ka Rd
Royapettah
Chennai 600 014

GURGAON
Centre Point
3rd Floor
Sushant Lok, Phase I
Gurgaon 122 002

HYDERABAD
Uptown Banjara
Road No 3
Banjarahills
Hyderabad 500 034

MUMBAI
Engineering Centre, 6th
Floor, 9, Matthew Road
Opera House
Mumbai 400 004

NEW DELHI
National Office
Outer Circle
L 41, Connaught Circus
New Delhi 110 001

PUNE
401, Century Arcade
Narangi Baug Road
Off Boat Club Road
Pune 411 001

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