

FULL UNION BUDGET 2013 SPEECH
OF FINANCE MINISTER – P CHIDAMBARAM

Madam Speaker,

1. I rise to present the Budget for the year 2013-14.
2. I recall my last tenure as Finance Minister and acknowledge with gratitude the splendid support that I received from all sections of the House as well as the people of India. Today, more than ever, I seek the same support as we navigate the Indian economy through a crisis that has enveloped the whole world and spared none.
3. I intend to keep my speech simple, straight forward and reasonably short.

I. THE ECONOMY AND THE CHALLENGES

4. I shall begin by setting the context. Global economic growth slowed from 3.9 percent in 2011 to 3.2 percent in 2012. India is part of the global economy: our exports and imports amount to 43 percent of GDP and two-way external sector transactions have risen to 108 percent of GDP. We are not unaffected by what happens in the rest of the world and our economy too has slowed after 2010-11. In the current year, the CSO has estimated growth at 5 percent while the RBI has estimated growth at 5.5 percent. Whatever may be the final estimate, it will be below India's potential growth rate of 8 percent. Getting back to that growth rate is the challenge that faces the country.
5. Let me say, however, there is no reason for gloom or pessimism. Even now, of the large countries of the world, only China and Indonesia are growing faster than India in 2012-13. And in 2013-14, if we grow at the rate projected by many forecasters, only China will grow faster than India. Between 2004 and 2008, and again in 2009-10 and 2010-11, the growth rate was over 8 percent and, in fact, crossed 9 percent in four of those six years. The average for the 11th Plan period, entirely under the UPA Government, was 8 percent, the highest ever in any Plan period. Achieving high growth, therefore, is not a novelty or beyond our capacity. We have done it before and we can do it again.
6. I acknowledge that the Indian economy is challenged, but I am absolutely confident that, with your cooperation, we will get out of the trough and get on to the high growth path. I shall now outline our plans and priorities.
7. Our goal is 'higher growth leading to inclusive and sustainable development'. That is the mool mantra.
8. Growth is a necessary condition and we must unhesitatingly embrace growth as the highest goal. It is growth that will lead to inclusive development, without growth there will be neither development nor inclusiveness. However, I may sound a note of caution. Owing to the plurality and diversity of India, and centuries of neglect, discrimination and deprivation, many sections of the people will be left behind if we do not pay special attention to them. As Joseph Stiglitz, Nobel prize-winning economist, said, "There is a compelling moral case for equity; but it is also necessary if there is to be sustained growth. A country's most important resource is its people." We have examples of States growing at a fast rate, but leaving behind women, the scheduled castes, the

scheduled tribes, the minorities, and some backward classes. The UPA does not accept that model. The UPA Government believes in inclusive development, with emphasis on improving human development indicators. I hope this Budget will be yet another testimony to that commitment.

Fiscal Deficit, Current Account Deficit and Inflation

9. The purpose of a Budget – and the job of a Finance Minister – is to create the economic space and find the resources to achieve the socio economic objectives. At present, the economic space is constrained because of a high fiscal deficit; reliance on foreign inflows to finance the current account deficit; lower savings and lower investment; a tight monetary policy to contain inflation; and strong external headwinds. During the course of my speech, I shall spell out measures that will address each of these issues.

10. In September, 2012, Government accepted the main recommendations of the Dr. Vijay Kelkar Committee. A new fiscal consolidation path was announced. Red lines were drawn for the fiscal deficit at 5.3 percent of GDP this year and 4.8 percent of GDP in 2013-14. I know there is a lot of scepticism. In a little while, I shall tell you how we have fared.

11. My greater worry is the current account deficit (CAD). The CAD continues to be high mainly because of our excessive dependence on oil imports, the high volume of coal imports, our passion for gold, and the slow down in exports. This year, and perhaps next year too, we have to find over USD 75 billion to finance the CAD. There are only three ways before us: FDI, FII or External Commercial Borrowing (ECB). That is why I have been at pains to state over and over again that India, at the present juncture, does not have the choice between welcoming and spurning foreign investment. If I may be frank, foreign investment is an imperative. What we can do is to encourage foreign investment that is consistent with our economic objectives.

12. Finally, the development must be sustainable – economically and ecologically. The development model must have democratic legitimacy and approval.

13. Looming large over our efforts to stimulate growth is inflation. Some inflation is imported. Supply demand mismatch, for example in oilseeds and pulses, also pushes up inflation. Aggregate demand is another cause of inflation. The battle against inflation must be fought on all fronts. Our efforts in the past few months have brought down headline WPI inflation to about 7.0 percent and core inflation to about 4.2 percent. It is food inflation that is worrying, and we shall take all possible steps to augment the supply side to meet the growing demand for food items.

14. Government expenditure boosts aggregate demand and it has both good and bad consequences. Wisdom lies in finding the correct level of government expenditure. In the budget for 2012-13, the estimate of Plan Expenditure was too ambitious and the estimate of non-Plan Expenditure was too conservative. Faced with a huge fiscal deficit, I had no choice but to rationalise expenditure. We took a dose of bitter medicine. It seems to be working. We also took some policy decisions that had been deferred for too long, corrected some prices, and undertook a review of certain tax policies. We have retrieved some economic space. As I outline our plans and priorities, Hon'ble Members will find that I have used that economic space to advantage – and to advance the UPA Government's socio-economic objectives.

II. THE PLAN AND BUDGETARY ALLOCATIONS

15. The 12th Five Year Plan began in 2012-13. Anticipating a global and domestic recovery, total expenditure had been fixed at ₹14,90,925 crore. Due to the slowdown and the austerity measures, the revised estimate is ₹14,30,825 crore or 96 percent of the budget estimate. The economic space that we have gained has given me the confidence to be more ambitious in 2013-14. I have been able to set the BE of total expenditure at ₹16,65,297 crore and of plan expenditure at ₹5,55,322 crore. Hon'ble Members will be happy to know that plan expenditure in 2013-14 will be 29.4 percent more than the revised estimate of the current year. All flagship programmes have been fully and adequately funded. I dare say I have provided sufficient funds to each Ministry or Department consistent with their capacity to spend the funds. Now, it is over to the Ministries and Departments to deliver the outcomes through good governance, prudent cash management, close monitoring and timely implementation.

16. Madam Speaker, on the one side is economic policy. On the other side is economic welfare. We are a developing country. The link between policy and welfare can be expressed in a few words: opportunities, education, skills, jobs and incomes. Every mother understands this. Every young man and woman understands this. My budget for 2013-14 has before it one overarching goal: to create opportunities for our youth to acquire education and skills that will get them decent jobs or self-employment that will bring them adequate incomes that will enable them to live with their families in a safe and secure environment.

SC, ST, Women and Children

17. Let me assure Hon'ble Members that their concerns are my concerns too. I know their concern for the welfare and progress of the scheduled castes and the scheduled tribes for whom the Budget has sub plans. I also know their concern that adequate funds must be provided for programmes that benefit women, children and the minorities. I have tried to meet these concerns as fully as possible. I propose to allocate ₹41,561 crore to the scheduled caste sub plan and ₹24,598 crore to the tribal sub plan. The total represents an increase of 12.5 percent over the BE and 31 percent over the RE of the current year. I reiterate the rule that the funds allocated to the sub plans cannot be diverted and must be spent for the purposes of the sub plans.

18. I have made sufficient allocations to programmes relating to women and children. Hon'ble Members will find from the budget documents that the gender budget has ₹97,134 crore and the child budget has ₹77,236 crore in 2013-14.

19. Women belonging to the most vulnerable groups, including single women and widows, must be able to live with self-esteem and dignity. Young women face gender discrimination everywhere, especially at the work place. Ministry of Women and Child Development has been asked to design schemes that will address these concerns. I propose to provide an additional sum of ₹200 crore to that Ministry to begin work in this regard.

Minorities

20. I have allocated ₹3,511 crore to the Ministry of Minority Affairs. This is an increase of 12 percent over the BE and 60 percent over the RE of 2012-13.

21. The Maulana Azad Education Foundation is the main vehicle to implement educational schemes and channelize funds to non-government organisations for the minorities. Its corpus stands at ₹750 crore. With the objective of raising it to ₹1,500 crore during the 12th Plan period, I propose to

allocate ₹160 crore to the corpus fund. The Foundation wishes to add medical aid to its objectives. I have accepted that a beginning can be made by providing medical facilities such as an infirmary or a resident doctor in the educational institutions run or funded by the Foundation. I propose to allocate ₹100 crore to launch this initiative.

Disabled Persons

22. Government is committed to provide support to persons with disabilities. I propose to allocate a sum of ₹110 crore to the Department of Disability Affairs for the ADIP Scheme in 2013-14, as against the RE of ₹75 crore in the current year.

Health and Education

23. Health for all and education for all remain our priorities.

24. I propose to allocate ₹37,330 crore to the Ministry of Health and Family Welfare. Of this, the new National Health Mission that combines the rural mission and the proposed urban mission will get ₹21,239 crore, an increase of 24.3 percent over the RE.

25. I propose to provide ₹4,727 crore for medical education, training and research.

26. The National Programme for the Health Care of Elderly is being implemented in 100 selected districts of 21 States. Eight regional geriatric centres are being funded for the development of dedicated geriatric departments. I propose to provide ₹150 crore for this programme.

27. Ayurveda, Unani, Siddha and Homoeopathy are being mainstreamed through the National Health Mission. I propose to allocate ₹1,069 crore to the Department of AYUSH.

28. The six AIIMS-like institutions have admitted their first batch of students in the academic session that commenced in September 2012. The hospitals attached to the colleges will be functional in 2013-14. I propose to provide a sum of ₹1,650 crore for these institutions.

29. Education is the other high priority. I propose to allocate ₹65,867 crore to the Ministry of Human Resource Development, which is an increase of 17 percent over the RE of the previous year. The Sarva Shiksha Abhiyan (SSA) and the Right to Education Act are firmly in place. I propose to provide ₹27,258 crore for SSA in 2013-14.

30. Investment in the Rashtriya Madhyamik Shiksha Abhiyan (RMSA) cannot be postponed any longer. Hence, I propose to provide ₹3,983 crore for RMSA, which is an increase of 25.6 percent over the RE of the current year.

31. Hon'ble Members will be happy to know that thousands of scholarships will be given to students belonging to Scheduled Castes, Scheduled Tribes, Other Backward Classes and Minorities, and girl children, in 2013-14. I propose to allocate ₹5,284 crore to the various Ministries for the purpose, as compared ₹4,575 crore in the RE of the current year.

32. The Mid-Day Meal Scheme (MDM) will be provided ₹13,215 crore.

33. The reconstruction of the Nalanda University has gathered momentum. The Government is

committed to the creation of Nalanda University as a centre of educational excellence.

ICDS

34. I commend the ICDS for being able to spend the entire amount of ₹15,850 crore provided in 2012-13. In recognition of the needs of children, I propose to allocate ₹17,700 crore in 2013-14, representing an increase of 11.7 percent. The focus will continue to be on early childhood care and education.

35. Maternal and child malnutrition in a country with abundant foodgrains is a shame that we must overcome. A multi-sectoral programme that was announced last year will be implemented in 100 districts during 2013-14 and it will be scaled up to cover 200 districts the year after. I propose to allocate a sum of ₹300 crore for the programme in 2013-14.

Drinking Water

36. Clean drinking water and sanitation have a number of beneficial externalities. I propose to allocate ₹15,260 crore to the Ministry of Drinking Water and Sanitation, as against the RE of ₹13,000 crore in the current year.

37. There are still 2,000 arsenic- and 12,000 fluoride-affected rural habitations in the country. I propose to provide ₹1,400 crore towards setting up water purification plants.

Rural Development

38. The Ministry of Rural Development steers a number of flagship programmes. We estimate that they will be able to spend ₹55,000 crore before the end of the current year, and I propose to allocate ₹80,194 crore in 2013-14, marking an increase of 46 percent. MGNREGS will get ₹33,000 crore, PMGSY will get ₹21,700 crore, and IAY will get ₹15,184 crore.

39. The objectives of PMGSY have been substantially fulfilled in several States. Naturally, these States wish to do more. Hence, it is proposed to carve out PMGSY-II and allocate a portion of the funds to the new programme that will benefit States such as Andhra Pradesh, Haryana, Karnataka, Maharashtra, Punjab and Rajasthan. Details of PMGSY-II will be announced by the Minister of Rural Development in due course.

JNNURM

40. The Jawaharlal Nehru National Urban Renewal Mission (JNNURM) is being continued in the 12th Plan. The 14,000 buses sanctioned during 2009 to 2012 have made a big contribution to urban transport. I propose to provide ₹14,873 crore for JNNURM, as against the RE of ₹7,383 crore in the current year. Out of this, a significant portion will be used to support the purchase of upto 10,000 buses, especially by the hill States.

III. AGRICULTURE

41. Thanks to our hard working farmers, agriculture continues to perform very well. The average annual growth rate of agriculture and allied sector during the 11th Plan was 3.6 percent as against 2.5 percent and 2.4 percent, respectively, in the 9th and 10th Plans. In 2012-13, total foodgrain production will be over 250 million tonnes. Minimum support price of every agricultural produce under the procurement programme has been increased significantly under the UPA Government.

Farmers have responded to the price signals and produced more. Agricultural exports from April to December, 2012 have crossed ₹138,403 crore.

42. I propose to allocate ₹27,049 crore to the Ministry of Agriculture, an increase of 22 percent over the RE of the current year. Of this, agricultural research will be provided ₹3,415 crore.

Agricultural Credit

43. Agricultural credit is the driver of agricultural production. We will exceed the target of ₹575,000 crore fixed for 2012-13. For 2013-14, I propose to increase the target to ₹700,000 crore.

44. The interest subvention scheme for short-term crop loans will be continued and a farmer who repays the loan on time will be able to get credit at 4 percent per annum. So far, the scheme has been applied to loans extended by public sector banks, RRBs and cooperative banks. I propose to extend the scheme to crop loans borrowed from private sector scheduled commercial banks in respect of loans given within the service area of the branch concerned.

Green Revolution

45. Bringing the green revolution to eastern India has been a remarkable success. Assam, Bihar, Chhattisgarh and West Bengal have increased their contribution to rice production. I propose to continue to support the eastern Indian States with an allocation of ₹1000 crore in 2013-14.

46. The original Green Revolution States face the problem of stagnating yields and over-exploitation of water resources. The answer lies in crop diversification. I propose to allocate ₹500 crore to start a programme of crop diversification that would promote technological innovation and encourage farmers to choose crop alternatives.

47. The Rashtriya Krishi Vikas Yojana is intended to mobilise higher investment in agriculture and the National Food Security Mission is intended to bridge yield gaps. I propose to provide ₹9,954 crore and ₹2,250 crore, respectively, for these two programmes.

48. Small and marginal farmers are vulnerable everywhere, and especially so in drought prone and ecologically-stressed regions. Watershed management is crucial to improve productivity of land and water use. I propose to increase the allocation for the integrated watershed programme from ₹3,050 crore in 2012-13 (BE) to ₹5,387 crore.

49. Eminent agricultural scientists have suggested that we start a pilot programme on Nutri-Farms for introducing new crop varieties that are rich in micro-nutrients such as iron-rich bajra, protein-rich maize and zinc-rich wheat. I propose to provide a sum of upto ₹200 crore to start the pilots. Ministry of Agriculture will formulate a scheme and I hope that agri businesses and farmers will come together to start a sufficient number of pilots in the districts most affected by malnutrition.

50. The National Institute of Biotic Stress Management for addressing plant protection issues will be established at Raipur, Chhattisgarh. The Indian Institute of Agricultural Bio-technology will be established at Ranchi, Jharkhand and will serve as a centre of excellence in agricultural bio-technology.

51. A pilot scheme to replant and rejuvenate coconut gardens that was implemented in some

districts of Kerala and the Andaman & Nicobar Islands will be extended to the entire State of Kerala, and I propose to provide an additional sum of ₹75 crore in 2013-14.

Farmer Producer Organizations

52. Farmer Producer Organizations (FPO), including Farmer Producer Companies (FPC), have emerged as aggregators of farm produce and link farmers directly to markets. To signal our support to them, I intend to provide matching equity grants to registered FPOs upto a maximum of ₹10 lakh per FPO to enable them to leverage working capital from financial institutions. I propose to provide ₹50 crore for this purpose. Besides, a Credit Guarantee Fund will also be created in the Small Farmers' Agri Business Corporation with an initial corpus of ₹100 crore. I urge State Governments to support such FPOs through necessary amendments to the APMC Act and in other ways.

National Livestock Mission

53. The National Livestock Mission will be launched in 2013-14 to attract investment and to enhance productivity taking into account local agro-climatic conditions. I propose to provide ₹307 crore for the Mission. There will be a sub Mission for increasing the availability of feed and fodder.

Food Security

54. Food security is as much a basic human right as the right to education or the right to health care. The National Food Security Bill is a promise of the UPA Government. I sincerely hope that Parliament will pass the Bill as early as possible. Hon'ble Members will be happy to know that I have set apart ₹10,000 crore, over and above the normal provision for food subsidy, towards the incremental cost that is likely under the Act.

IV. INVESTMENT, INFRASTRUCTURE AND INDUSTRY

55. The growth rate of an economy is correlated with the investment rate. The key to restart the growth engine is to attract more investment, both from domestic investors and foreign investors. Investment is an act of faith. We will improve communication of our policies to remove any apprehension or distrust in the minds of investors, including fears about undue regulatory burden or application of tax laws. 'Doing business in India' must be seen as easy, friendly and mutually beneficial.

56. While every sector can absorb new investment, it is the infrastructure sector that needs large volumes of investment. The 12th Plan projects an investment of USD 1 trillion or ₹55,00,000 crore in infrastructure. The Plan envisages that the private sector will share 47 percent of the investment. Besides, we need new and innovative instruments to mobilise funds for this order of investment. Government has taken or will take the following measures to increase investment in infrastructure:

- Infrastructure Debt Funds (IDF) will be encouraged. These funds will raise resources and, through take-out finance, credit enhancement and other innovative means, provide long-term low-cost debt for infrastructure projects. I am happy to report that four IDFs have been registered with SEBI so far and two of them were launched in the month of February, 2013.
- India Infrastructure Finance Corporation Ltd (IIFCL), in partnership with the Asian Development Bank, will offer credit enhancement to infrastructure companies that wish to access the bond market

to tap long term funds.

- In the last two years, a number of institutions were allowed to issue tax free bonds. They raised ₹30,000 crore in 2011-12 and are expected to raise about ₹25,000 crore in 2012-13. I propose to allow some institutions to issue tax free bonds in 2013-14, strictly based on need and capacity to raise money in the market, upto a total sum of ₹50,000 crore.
- Multilateral Development Banks are keen to assist in efforts to promote regional connectivity. Combining the 'Look East' policy and the interests of the North Eastern States, I propose to seek the assistance of the World Bank and the Asian Development Bank to build roads in the North Eastern States and connect them to Myanmar.
- NABARD operates the Rural Infrastructure Development Fund (RIDF). RIDF has successfully utilised 18 tranches so far. I propose to raise the corpus of RIDF-XIX in 2013-14 to ₹20,000 crore.
- Pursuant to the announcement made last year, a sum of ₹5000 crore will be made available to NABARD to finance construction of warehouses, godowns, silos and cold storage units designed to store agricultural produce, both in the public and the private sectors. This window will also finance, through the State Governments, construction of godowns by panchayats to enable farmers to store their produce.

Road Construction

57. The road construction sector has reached a certain level of maturity. But it faces challenges not envisaged earlier, including financial stress, enhanced construction risk and contract management issues, that are best addressed by an independent authority. Hence, Government has decided to constitute a regulatory authority for the road sector. Bottlenecks stalling road projects have been addressed and 3,000 kms of road projects in Gujarat, Madhya Pradesh, Maharashtra, Rajasthan and Uttar Pradesh will be awarded in the first six months of 2013-14.

Cabinet Committee Investment

58. Revival of investment in the industrial sector, especially manufacturing, is a key challenge. Many projects are stalled because they are unable to clear regulatory hurdles. The Cabinet Committee on Investment (CCI) has been set up to monitor investment proposals as well as projects under implementation, including stalled projects, and guide decision-making in order to remove bottlenecks and quicken the pace of implementation. Two meetings of the CCI have been held already and decisions were taken in respect of a number of oil and gas, power, and coal projects. CCI will take up some more projects shortly.

New Investment

59. To attract new investment and to quicken the implementation of projects, I propose to introduce an investment allowance for new high value investments. A company investing ₹100 crore or more in plant and machinery during the period 1.4.2013 to 31.3.2015 will be entitled to deduct an investment allowance of 15 percent of the investment. This will be in addition to the current rates of depreciation. There will be enormous spill-over benefits to small and medium enterprises.

60. The National Electronics Policy 2012 is intended to promote manufacture of electronic goods in

India. We recognise the pivotal role of semiconductor wafer fabs in the eco-system of manufacture of electronics. I propose to provide appropriate incentives to semiconductor wafer fab manufacturing facilities, including zero customs duty for plant and machinery.

Savings

61. Increasing savings and their optimal allocation for productive uses lead to higher economic growth. After touching a high of 36.8 percent in 2007-08, gross domestic saving fell by 6 percentage points in 2011-12. The private sector, comprising households and corporates, remains the main contributor to saving. The household sector must be incentivised to save in financial instruments rather than buy gold. Hence, I propose the following measures:

- Firstly, the Rajiv Gandhi Equity Savings Scheme will be liberalised to enable the first time investor to invest in mutual funds as well as listed shares and she can do so, not in one year alone, but in three successive years. The income limit will be raised from ₹10,00,000 to ₹12,00,000;
- Secondly, a person taking a loan for his first home from a bank or a housing finance corporation upto ₹25,00,000 during the period 1.4.2013 to 31.3.2014 will be entitled to an additional deduction of interest of upto ₹100,000. This will promote home ownership and give a fillip to a number of industries like steel, cement, brick, wood, glass etc. besides jobs to thousands of construction workers.
- Thirdly, in consultation with RBI, I propose to introduce instruments that will protect savings from inflation, especially the savings of the poor and middle classes. These could be Inflation Indexed Bonds or Inflation Indexed National Security Certificates. The structure and tenor of the instruments will be announced in due course.

Industrial Corridors

62. The Delhi Mumbai Industrial Corridor (DMIC) project has made rapid progress. Plans for seven new cities have been finalised and work on two new smart industrial cities at Dholera, Gujarat and Shendra Bidkin, Maharashtra will start during 2013-14. We acknowledge the support of the Government of Japan. In order to dispel any doubt about funding, I wish to make it clear that we shall provide, if required, additional funds during 2013-14 within the share of the Government of India in the overall outlay for the project.

63. The Department of Industrial Policy and Promotion (DIPP) and the Japan International Cooperation Agency (JICA) are currently preparing a comprehensive plan for the Chennai Bengaluru Industrial Corridor. The corridor will be developed in collaboration with the Governments of Tamil Nadu, Andhra Pradesh and Karnataka.

64. The next corridor will be the Bengaluru Mumbai Industrial Corridor on which preparatory work has started.

Leh-Kargil Transmission Line

65. To improve power supply in the Leh-Kargil region and connect the Ladakh region to the northern grid, the Government will construct a transmission system from Srinagar to Leh at a cost of ₹1,840 crore. I propose to provide ₹226 crore in 2013-14 for the project.

Ports

66. Two new major ports will be established in Sagar, West Bengal and in Andhra Pradesh to add 100 million tonnes of capacity. In addition, a new outer harbour will be developed in the VOC port at Thoothukkudi, Tamil Nadu through PPP at an estimated cost of ₹7,500 crore. When completed, this will add 42 million tonnes of capacity.

National Waterways

67. Five inland waterways have been declared as national waterways. I am happy to announce that the Minister of Water Resources will move a Bill in Parliament to declare the Lakhimpur – Bhangra stretch of river Barak in Assam as the sixth national waterway. Preparatory work is underway to build a grid connecting waterways, roads and ports. The 12th Plan has an adequate outlay for capital works, including dredging, on the national waterways. The objective is to choose barge operators, through competitive bidding, to transport bulk cargo on the national waterways. The first transport contract has been awarded in West Bengal from Haldia to Farakka.

Oil and Gas

68. The oil and gas exploration policy will be reviewed to move from profit sharing to revenue sharing contracts. A policy to encourage exploration and production of shale gas will be announced. The natural gas pricing policy will be reviewed and uncertainties regarding pricing will be removed. NELP blocks that were awarded but are stalled will be cleared. The 5 MMTPA LNG terminal in Dabhol, Maharashtra will be fully operational in 2013-14.

Coal

69. Despite abundant coal reserves, we continue to import large volumes of coal. Coal imports during the period April-December, 2012 have crossed 100 million tonnes. It is estimated that imports will rise to 185 million tonnes in 2016-17. If the coal requirements of the existing power plants and the power plants that will come into operation by 31.3.2015 are taken into account, there is no alternative except to import coal and adopt a policy of blending and pooled pricing. In the medium to long term, we must reduce our dependence on imported coal. One of the ways forward is to devise a PPP policy framework, with Coal India Limited as one of the partners, in order to increase the production of coal for supply to power producers and other consumers. These matters are under active consideration and the Minister of Coal will announce Government's policies in this behalf in due course.

Power

70. Hon'ble Members are aware that the Government has approved a scheme for the financial restructuring of DISCOMS to restore the health of the power sector. I would urge State Governments to prepare the financial restructuring plans quickly, sign the MOU, and take advantage of the scheme.

Micro, Small and Medium Enterprises

71. Micro, small and medium enterprises (MSME) have a large share of jobs, production and exports. Too many of them do not grow because of the fear of losing the benefits associated with staying small or medium. To encourage them to grow, I propose that the benefits or preferences enjoyed by them will stay with them for upto three years after they grow out of the category in which they obtained the benefit. To begin with, I propose that the non-tax benefits may be made available to a MSME unit for three years after it graduates to a higher category.

72. To provide greater support to MSMEs, I propose to enhance the refinancing capability of SIDBI from the current level of ₹5,000 crore to ₹10,000 crore per year.

73. SIDBI set up the India Microfinance Equity Fund in 2011-12 with budgetary support of ₹100 crore to provide equity and quasi-equity to Micro Finance Institutions (MFI). An amount of ₹104 crore has been committed to 37 MFIs. I have allocated ₹100 crore to the IME Fund in the budget and I now propose to provide another sum of ₹100 crore to the Fund.

74. The Factoring Act 2011 has been passed by Parliament. I propose to provide a corpus of ₹500 crore to SIDBI to set up a Credit Guarantee Fund for factoring.

75. Tool Rooms and Technology Development Centres set up by the Ministry of Micro, Small and Medium Enterprises have done well in extending technology and design support to small businesses. I propose to provide, with World Bank assistance, a sum of ₹2,200 crore during the 12th Plan period to set up 15 additional Centres.

76. Incubators play an important role in mentoring new businesses which start as a small or medium business. The new Companies Bill obliges companies to spend 2 percent of average net profits under Corporate Social Responsibility (CSR). I am glad to announce that the Ministry of Corporate Affairs will notify that funds provided to technology incubators located within academic institutions and approved by the Ministry of Science and Technology or Ministry of MSME will qualify as CSR expenditure.

Textiles

77. I propose to continue the Technology Upgradation Fund Scheme (TUFS) for the textile sector in the 12th Plan with an investment target of ₹151,000 crore. The major focus would be on modernisation of the powerloom sector. I propose to provide ₹2,400 crore in 2013-14 for the purpose.

78. Textile parks have been set up under Scheme for Integrated Textile Parks (SITP). It is proposed to set up Apparel Parks within the SITPs to house apparel manufacturing units. To incentivise such Apparel Parks, I propose to allocate ₹50 crore to the Ministry of Textiles to provide an additional grant of upto ₹10 crore to each Park.

79. A new scheme with an outlay of ₹500 crore called the Integrated Processing Development Scheme will be implemented in the 12th Plan to address the environmental concerns of the textile industry, including improving the effluent treatment infrastructure. I propose to provide ₹50 crore in 2013-14 for the scheme.

80. The handloom sector is in distress. A very large proportion of handloom weavers are women and belong mainly to the backward classes. I propose to accept their demand for working capital and

term loans at a concessional interest of 6 percent. 150,000 individual weavers and 1,800 primary cooperative societies will benefit in 2013-14. I propose to allocate an additional sum of ₹96 crore in 2013-14 to the Ministry of Textiles for interest subvention.

81. India has a rich heritage of traditional industries. Khadi, village industries and coir were taken up for development during the 11th Plan under the Scheme of Fund for Regeneration of Traditional Industries (SFURTI). The 12th Plan has provided an outlay of ₹850 crore. I propose to leverage assistance from Multilateral Development Banks to extend SFURTI to 800 clusters during the 12th Plan. 400,000 artisans are expected to be benefited.

Foreign Trade

82. I look forward to the changes that will be made to the Foreign Trade Policy next month and I assure my support to measures that will be taken to boost exports of goods and services.

V. FINANCIAL SECTOR

83. The financial sector is at the heart of the economy.

84. Hon'ble Members are aware that Government constituted the Financial Sector Legislative Reforms Commission (FSLRC) in 2011. I am informed that the report will be presented next month. It is our intention to examine the recommendations and act quickly and decisively so that our financial sector stands on sound legal foundations and remains well-regulated, efficient and internationally competitive. I propose to constitute a Standing Council of Experts in the Ministry of Finance to analyse the international competitiveness of the Indian financial sector, periodically examine the transaction costs of doing business in the Indian market, and provide inputs to Government for necessary action.

Banking

85. Our public sector banks are well regulated, they must also be adequately capitalised. Before the end of March, 2013, we shall provide ₹12,517 crore to infuse additional capital into 13 public sector banks. In 2013-14, I propose to provide a further amount of ₹14,000 crore for capital infusion. We shall ensure that public sector banks always meet the Basel III regulations as they come into force in a phased manner.

86. Financial inclusion has made rapid strides. All scheduled commercial banks and all RRBs are on core banking solution (CBS) and on the electronic payment systems (NEFT and RTGS). We are working with RBI and NABARD to bring all other banks, including some cooperative banks, on CBS and e-payment systems by 31.12.2013. Public sector banks have assured me that all their branches will have an ATM in place by 31.3.2014.

87. Women are at the head of many banks today, including two public sector banks, but there is no bank that exclusively serves women. Can we have a bank that lends mostly to women and women-run businesses, that supports women SHGs and women's livelihood, that employs predominantly women, and that addresses gender related aspects of empowerment and financial inclusion? I think we can. I therefore propose to set up India's first Women's Bank as a public sector bank and I shall provide ₹1,000 crore as initial capital. I hope to obtain the necessary approvals and the banking licence by October, 2013, and I invite all Hon'ble Members to the inauguration of the bank shortly

thereafter.

88. The Rural Housing Fund set up through the National Housing Bank is used to refinance lending institutions, including RRBs, that extend loans for rural housing. So far, 400,000 rural families have taken loans. In the last Budget, we provided ₹4,000 crore to the Fund. In consultation with RBI, I propose to provide ₹6,000 crore to the Rural Housing Fund in 2013-14.

89. Similarly, it is proposed to start a fund for urban housing to mitigate the huge shortage of houses in urban areas. I propose to ask National Housing Bank to set up the Urban Housing Fund and, in consultation with RBI, I propose to provide ₹2,000 crore to the Fund in 2013-14.

Insurance

90. A multi-pronged approach will be followed to increase the penetration of insurance, both life and general, in the country. I have a number of proposals that have been finalised in consultation with the regulator, IRDA.

- Insurance companies will be empowered to open branches in Tier II cities and below without prior approval of IRDA.
- All towns of India with a population of 10,000 or more will have an office of LIC and an office of at least one public sector general insurance company. I propose to achieve this goal by 31.3.2014.
- KYC of banks will be sufficient to acquire insurance policies.
- Banks will be permitted to act as insurance brokers so that the entire network of bank branches will be utilised to increase penetration.
- Banking correspondents will be allowed to sell micro-insurance products.
- Group insurance products will now be offered to homogenous groups such as SHGs, domestic workers associations, anganwadi workers, teachers in schools, nurses in hospitals etc.
- There are about 10,00,000 motor third party claims that are pending before Tribunals/Courts. Public sector general insurance companies will organise adalats to settle the claims and give relief to the affected persons/families.

91. The Insurance Laws (Amendment) Bill and the PFRDA Bill are before this House. I sincerely hope that Government and the Opposition can arrive at a consensus and pass the two Bills in this session.

92. The Rashtriya Swasthya Bima Yojana covers 34 million families below the poverty line. It will now be extended to other categories such as rickshaw, auto-rickshaw and taxi drivers, sanitation workers, rag pickers and mine workers.

93. A comprehensive and integrated social security package for the unorganised sector is a measure that will benefit the poorest and most vulnerable sections of society. The package should include life-cum-disability cover, health cover, maternity assistance and pension benefits. The present schemes such as AABY, JSBY, RSBY, JSY and IGMSY are run by different ministries and departments. I propose to facilitate convergence among the various stakeholder ministries/departments so that we can evolve a comprehensive social security package.

Capital Market

94. I believe that India's capital market is among the best regulated markets. This year is SEBI's silver jubilee year and I offer the regulator our congratulations. A proposal to amend the SEBI Act to strengthen the regulator is under consideration.

95. I have a number of proposals relating to the capital market that have been finalised in consultation with SEBI:

- There are many categories of foreign portfolio investors such as FIIs, sub-accounts, QFIs etc. and there are also different avenues and procedures for them. Designated depository participants, authorised by SEBI, will now be free to register different classes of portfolio investors, subject to compliance with KYC guidelines.
- SEBI will simplify the procedures and prescribe uniform registration and other norms for entry of foreign portfolio investors. SEBI will converge the different KYC norms and adopt a risk-based approach to KYC to make it easier for foreign investors such as central banks, sovereign wealth funds, university funds, pension funds etc. to invest in India.
- In order to remove the ambiguity that prevails on what is Foreign Direct Investment (FDI) and what is Foreign Institutional Investment (FII), I propose to follow the international practice and lay down a broad principle that, where an investor has a stake of 10 percent or less in a company, it will be treated as FII and, where an investor has a stake of more than 10 percent, it will be treated as FDI. A committee will be constituted to examine the application of the principle and to work out the details expeditiously.
- FIIs will be allowed to participate in the exchange traded currency derivative segment to the extent of their Indian rupee exposure in India.
- FIIs will also be permitted to use their investment in corporate bonds and Government securities as collateral to meet their margin requirements.
- Angel investors bring both experience and capital to new ventures. SEBI will prescribe requirements for angel investor pools by which they can be recognised as Category I AIF venture capital funds.
- Small and medium enterprises, including start-up companies, will be permitted to list on the SME exchange without being required to make an initial public offer (IPO), but the issue will be restricted to informed investors. This will be in addition to the existing SME platform in which listing can be done through an IPO and with wider investor participation.
- With the object of developing the debt market, stock exchanges will be allowed to introduce a dedicated debt segment on the exchange. Banks and primary dealers will be the proprietary trading members. In order to create a complete market, insurance companies, provident funds and pension funds will be permitted to trade directly in the debt segment with the approval of the sectoral regulator.
- Mutual fund distributors will be allowed to become members in the Mutual Fund segment of stock

exchanges so that they can leverage the stock exchange network to improve their reach and distribution.

- The list of eligible securities in which Pension Funds and Provident Funds may invest will be enlarged to include exchange traded funds, debt mutual funds and asset backed securities.

VI. ENVIRONMENT

96. India tosses out several thousand tonnes of garbage each day. We will evolve a scheme to encourage cities and municipalities to take up waste-to-energy projects in PPP mode which would be neutral to different technologies. I propose to support municipalities that will implement waste-to-energy projects through different instruments such as viability gap funding, repayable grant and low cost capital.

97. Clean and Green energy is a priority of the Government. However, despite cost advantages in labour, land and construction, the consumer pays a high price for renewable energy. One of the reasons is high cost of finance. In order to provide low cost finance, Government will provide low interest bearing funds from the National Clean Energy Fund (NCEF) to IREDA to on-lend to viable renewable energy projects. The scheme will have a life span of five years.

98. The non-conventional wind energy sector deserves incentives. Hence, I propose to reintroduce 'generation-based incentive' for wind energy projects and provide ₹800 crore to the Ministry of Non Renewable Energy for the purpose.

VII. OTHER PROPOSALS

Backward Regions Grant Fund

99. The Backward Regions Grant Fund (BRGF) is a vital source of gap funding. I propose to allocate ₹11,500 crore in 2013-14 as well as another sum of ₹1,000 crore for LWE affected districts. BRGF will include a State component for Bihar, the Bundelkand region, West Bengal, the KBK districts of Odisha and the 82 districts under the Integrated Action Plan. The present criteria for determining backwardness are based on terrain, density of population and length of international borders. It may be more relevant to use a measure like the distance of the State from the national average under criteria such as per capita income, literacy and other human development indicators. I propose to evolve new criteria and reflect them in future planning and devolution of funds.

Skill Development

100. Hon'ble Members will recall that in 2008-09 I had proposed the establishment of the National Skill Development Corporation. The Corporation has since been set up and has done good work, but there is a long way to go. We have set an ambitious target of skilling 50 million people in the 12th Plan period, including 9 million in 2013-14. We have to pull out all stops to achieve this objective. Funds will be released by the National Rural Livelihood Mission and the National Urban Livelihood Mission to be spent on skill development activities. 5 percent of the Border Area Development Programme Fund, 10 percent of the Special Central Assistance to the Scheduled Caste sub plan and the Tribal sub plan, and some other funds will also be used for skill development.

Defence

101. I propose to increase the allocation for Defence to ₹203,672 crore. This will include ₹86,741 crore for capital expenditure. The Minister of Defence has been most understanding, and I assure him and the House that constraints will not come in the way of providing any additional requirement for the security of the nation.

Science & Technology

102. Despite our constraints, we must find resources for science and technology and for Space, Atomic Energy etc. I propose to allocate ₹6,275 crore to the Ministry of Science & Technology; ₹5,615 crore to the Department of Space; and ₹5,880 crore to the Department of Atomic Energy. Hon'ble Members will be happy to know that these amounts are substantial enhancements.

103. While we extol the virtues of science and technology (S&T), I think we do not pay enough attention to science and technology for the common man. With the help of the Ministry of Science and Technology and the Principal Scientific Adviser to the Government, I have identified a few amazing S&T innovations. I propose to set apart ₹200 crore to fund organisations that will scale up and make these products available to the people. I propose to ask the National Innovation Council to formulate a scheme for the management and application of the fund.

Institutions of Excellence

104. Continuing the tradition of supporting institutions of excellence, I propose to make a grant of ₹100 crore each to:

- Aligarh Muslim University, Aligarh campus
- Banaras Hindu University, Varanasi
- Tata Institute of Social Sciences, Guwahati campus
- Indian National Trust for Art and Cultural Heritage (INTACH)

Sports

105. Sports of all kind deserve our support. We have many sportsmen and sportswomen but few coaches. Hence, I propose to set up the National Institute of Sports Coaching at Patiala at a cost of ₹250 crore over a period of three years.

Broadcasting

106. Government proposes to expand private FM radio services to 294 more cities. About 839 new FM radio channels will be auctioned in 2013-14 and, after the auction, all cities having a population of more than 100,000 will be covered by private FM radio services.

Panchayati Raj

107. The Rajiv Gandhi Panchayat Sashaktikaran Abhiyan (RGPSA) was started in the current year with a modest allocation of ₹50 crore. Keeping in view the importance of building capacity in panchayati raj institutions, I had allocated ₹455 crore to the Ministry of Panchayati Raj in 2013-14. I propose to provide an additional ₹200 crore .

Post Offices

108. Government has initiated an ambitious IT driven project to modernise the postal network at a cost of ₹4,909 crore. Post offices will become part of the core banking solution and offer real time banking services. I propose to provide ₹532 crore for the project in 2013-14.

Ghadar Memorial

109. To mark the centenary of the Ghadar movement, the Government will fund the conversion of the Ghadar Memorial in San Francisco into a museum and library.

Central Schemes

110. Government is concerned about the proliferation of Centrally Sponsored Schemes (CSS) and Additional Central Assistance (ACA) schemes. They were 173 in number at the end of the 11th Plan. I am glad to announce that the schemes will be restructured into 70 schemes. Each scheme will be reviewed once in two years. Central funds for the schemes will be given to the States as part of central plan assistance. Hon'ble Members will be glad to know that, in 2013-14, I expect to transfer resources to the tune of ₹5,87,082 crore to the States and UTs under share of taxes, non-plan grants and loans, and central assistance.

I make three promises

111. Madam Speaker, before I close this part of my speech, I wish to draw a picture of three faces that represent the vast majority of the people of India. The first is the face of the woman. She is the girl child, the young student, the sportswoman, the homemaker, the working woman, and the mother. The second is the face of the youth. He is impatient, she is ambitious, and both represent the aspirations of a new generation. The third is the face of the poor who look to the government for a little help, a scholarship or an allowance or a subsidy or a pension. To each of them, on behalf of the Government, the Prime Minister and the Chairperson of the UPA, I make a promise.

112. To the women of India: We have a collective responsibility to ensure the dignity and safety of women. Recent incidents have cast a long, dark shadow on our liberal and progressive credentials. As more women enter public spaces – for education or work or access to services or leisure – there are more reports of violence against them. We stand in solidarity with our girl children and women. And we pledge to do everything possible to empower them and to keep them safe and secure. A number of initiatives are under way and many more will be taken by Government as well as non-government organisations. These deserve our support. As an earnest of our commitment to these objectives, I propose to set up a fund – let us call it the Nirbhaya Fund – and Government will contribute ₹1,000 crore. Ministry of Women and Child Development and other ministries concerned will be requested to work out the details of the structure, scope and application of the fund.

113. To the youth of India: A large number of youth must be motivated to voluntarily join skill development programmes. I propose to ask the National Skill Development Corporation to set the curriculum and standards for training in different skills. Any institution or body may offer training courses. At the end of the training, the candidate will be required to take a test conducted by authorised certification bodies. Upon passing the test, the candidate will be given a certificate as well as a monetary reward of an average of ₹10,000 per candidate. Skill-trained youth will give an enormous boost to employability and productivity. On the assumption that 10,00,000 youth can be motivated, I propose to set apart ₹1,000 crore for this ambitious scheme. I hope that this will be the

trigger to extend skill development to all the youth of the country.

114. To the poor of India: The Direct Benefit Transfer scheme has captured the imagination of the people, especially the poor. The Government is the government of the people. The money is the money belonging to the people. When we say "Aapka paisa aapke haath", why should anyone oppose it? We have made a modest and cautious beginning on the 1st of January, 2013. Nearly 11 lakh beneficiaries have received the benefit directly into their bank accounts. All around us, we see the smiles on the faces of the dalit girls and the tribal boys who have received their scholarships. We see the happiness on the faces of the pregnant women who are assured that the Government cares for the mother and the child before and after child birth. We are redoubling our efforts to ensure that the digitized beneficiary lists are available; that a bank account is opened for each beneficiary; and that the bank account is seeded with Aadhaar in due course. I assure the House and the people of India that the DBT scheme will be rolled out throughout the country during the term of the UPA Government.

Budget Estimates

115. I shall now turn to the Budget Estimates for 2013-14.

116. The estimate of Plan Expenditure is placed at ₹5,55,322 crore. As a proportion of total expenditure, it will be 33.3 percent.

117. Non Plan Expenditure is estimated at ₹11,09,975 crore.

118. When we accepted the main recommendations of the Kelkar report, I had drawn some red lines and promised that I would not cross those lines. I am glad to report that I have kept my promise. The fiscal deficit for the current year has been contained at 5.2 percent and the fiscal deficit for the year 2013-14 is estimated at 4.8 percent. The revenue deficit for the current year will be 3.9 percent and the revenue deficit for the year 2013-14 is estimated at 3.3 percent. We must redeem our promise by 2016-17 and bring down the fiscal deficit to 3 percent, the revenue deficit to 1.5 percent and the effective revenue deficit to zero.

PART B

VIII. TAX PROPOSALS

119. Madam Speaker, I shall now present my tax proposals.

120. When I took over in August, 2012, I made a statement that "clarity in tax laws, a stable tax regime, a non-adversarial tax administration, a fair mechanism for dispute resolution, and an independent judiciary will provide great assurance". That statement is the underlying theme of my tax proposals, both on the direct taxes side and on the indirect taxes side.

121. An emerging economy must have a tax system that reflects best global practices. I propose to set up a Tax Administration Reform Commission to review the application of tax policies and tax laws and submit periodic reports that can be implemented to strengthen the capacity of our tax system.

122. In 2011-12, the tax GDP ratio was 5.5 percent for direct taxes and 4.4 percent for indirect taxes. These ratios are one of the lowest for any large developing country and will not garner

adequate resources for inclusive and sustainable development. I may recall that in 2007-08, the tax GDP ratio touched a peak of 11.9 percent. In the short term, we must reclaim that peak.

Direct Taxes

123. Let me begin with direct taxes.

124. In a constrained economy, there is little room to raise tax rates or large amounts of additional tax revenues. Equally, there is little room to give away tax revenues or the tax base. It is a time for prudence, restraint and patience.

125. The rates of personal income tax have survived four Finance Ministers and four Governments. The current slabs were introduced only last year. Hence, I am afraid, there is no case to revise either the slabs or the rates. Besides, even a moderate increase in the level of threshold exemption will mean that hundreds of thousands of tax payers will go out of the tax net and the tax base will be severely eroded. Nevertheless, I am inclined to give some relief to the tax payers in the first bracket of ₹2 lakh to ₹5 lakh. Assuming an inflation rate of 10 percent and a notional rise in the threshold exemption from ₹2,00,000 to ₹2,20,000, I propose to provide a tax credit of ₹2,000 to every person who has a total income upto ₹5 lakh. 1.8 crore tax payers are expected to benefit to the value of ₹3,600 crore.

126. Fiscal consolidation cannot be effected only by cutting expenditure. Wherever possible, revenues must also be augmented. When I need to raise resources, who can I go to except those who are relatively well placed in society? There are 42,800 persons – let me repeat, only 42,800 persons – who admitted to a taxable income exceeding ₹1 crore per year. I propose to impose a surcharge of 10 percent on persons whose taxable income exceeds ₹1 crore per year. This will apply to individuals, HUFs, firms and entities with similar tax status.

127. I also propose to increase the surcharge from 5 percent to 10 percent on domestic companies whose taxable income exceeds ₹10 crore per year. In the case of foreign companies, who pay the higher rate of corporate tax, the surcharge will increase from 2 percent to 5 percent.

128. In all other cases, such as dividend distribution tax or tax on distributed income, I propose to increase the current surcharge of 5 percent to 10 percent.

129. The additional surcharges will be in force for only one year, that is Financial Year 2013-14.

130. I believe there is a little bit of the spirit of Mr. Azim Premji in every affluent tax payer. I am confident that when I ask the relatively prosperous to bear a small burden for one year, just one year, they will do so cheerfully.

131. The education cess for all tax payers shall continue at 3 percent.

132. In part A of my speech, I had referred to the tax benefit to the first-home buyer who takes a loan for an amount not exceeding ₹25,00,000. I propose to allow such home buyers an additional deduction of interest of ₹100,000 to be claimed in AY 2014-15. If the limit is not exhausted, the balance may be claimed in AY 2015-16. This deduction will be over and above the deduction of ₹150,000 allowed for self-occupied properties under section 24 of the Income-tax Act.

133. I propose to relax the eligibility conditions of life insurance policies for persons suffering from

disability or certain ailments by increasing the permissible premium rate from 10 percent to 15 percent of the sum assured. This relaxation shall be available in respect of policies issued on or after 1.4.2013.

134. Contributions made to the Central Government Health Scheme are eligible for deduction under section 80D of the Income-tax Act. I propose to extend the same benefit to similar schemes of the Central Government and State Governments.

135. Donations made to the National Children's Fund will now be eligible for 100 percent deduction.

136. No large economy can become truly developed without a robust manufacturing sector. Hence, as stated in part A of my speech, I propose to provide an investment allowance at the rate of 15 percent to a manufacturing company that invests more than ₹100 crore in plant and machinery during the period 1.4.2013 to 31.3.2015.

137. I propose to extend the 'eligible date' for projects in the power sector to avail of the benefit under section 80-IA of the Income-tax Act, from 31.3.2013 to 31.3.2014.

138. In order to encourage repatriation of funds from overseas companies, I propose to continue for one more year the concessional rate of tax of 15 percent on dividend received by an Indian company from its foreign subsidiary. Further, the Indian company shall not be liable to pay dividend distribution tax on the distribution to its shareholders of that portion of the income received from its foreign subsidiary.

139. With a view to attract investment in long term infrastructure bonds in foreign currency, the rate of tax on interest paid to non-resident investors was reduced last year from 20 percent to 5 percent. I propose to extend the same benefit to investment made through a designated bank account in rupee-denominated long term infrastructure bonds.

140. In order to facilitate financial institutions to securitise their assets through a special purpose vehicle, I propose to exempt the Securitisation Trust from income tax. Tax shall be levied only at the time of distribution of income by the Securitisation Trust at the rate of 30 percent in the case of companies and at the rate of 25 percent in the case of an individual or HUF. No further tax will be levied on the income received by the investors from the Securitisation Trust.

141. Investor Protection Fund set up by a depository for the protection of interest of beneficial owners will be exempt from income tax.

142. I propose to provide parity in taxation between an IDF-Mutual Fund that distributes income and an IDF-NBFC that pays interest, when the payment is made to a non-resident. The rate of tax on such distributed income or interest will be 5 percent.

143. Venture Capital Funds have been allowed pass through status under the Income-tax Act. The relevant regulations of SEBI have been replaced by Alternative Investment Fund Regulations. Hence, I propose to extend, subject to certain conditions, pass through status to category I Alternative Investment Funds registered with SEBI as venture capital funds. Angel Investors who are recognised as category I AIF venture capital funds will also get pass through status.

144. I propose to modify the Rajiv Gandhi Equity Saving Scheme, details of which I had mentioned

in part A of my speech.

145. Transactions in immovable properties are usually undervalued and underreported. One-half of the transactions do not carry the PAN of the parties concerned. With a view to improve the reporting of such transactions and the taxation of capital gains, I propose to apply TDS at the rate of one percent on the value of the transfer of immovable property where the consideration exceeds ₹50 lakhs. However, agricultural land will be exempt.

146. Some tax avoidance arrangements have come to notice, and I propose to plug the loopholes. Some unlisted companies have avoided dividend distribution tax by arrangements involving buyback of shares. I propose to levy a final withholding tax at the rate of 20 percent on profits distributed by unlisted companies to shareholders through buyback of shares.

147. Another case is the distribution of profits by a subsidiary to a foreign parent company in the form of royalty. Besides, the rate of tax on royalty in the Income-tax Act is lower than the rates provided in a number of Double Tax Avoidance Agreements. This is an anomaly that must be corrected. Hence, I propose to increase the rate of tax on payments by way of royalty and fees for technical services to non-residents from 10 percent to 25 percent. However, the applicable rate will be the rate of tax stipulated in the DTAA.

148. Securities Transaction Tax (STT) has a stabilizing effect on transactions, although it adds to the transaction cost. Taking note of the changes and shifts in the market, I propose to make the following reductions in the rates of tax:

Equity futures: from 0.017 to 0.01 percent

MF/ETF redemptions at fund counters: from 0.25 to 0.001 percent

MF/ETF purchase/sale on exchanges: from 0.1 to 0.001 percent, only on the seller

149. There is no distinction between derivative trading in the securities market and derivative trading in the commodities market, only the underlying asset is different. It is time to introduce Commodities Transaction Tax (CTT) in a limited way. Hence, I propose to levy CTT on non-agricultural commodities futures contracts at the same rate as on equity futures, that is at 0.01 percent of the price of the trade. Trading in commodity derivatives will not be considered as a 'speculative transaction' and CTT shall be allowed as deduction if the income from such transaction forms part of business income. As I said, agricultural commodities will be exempt.

150. Hon'ble Members are aware that the Finance Act, 2012 introduced the General Anti Avoidance Rules, for short, GAAR. A number of representations were received against the new provisions. An expert committee was constituted to consult stakeholders and finalise the GAAR guidelines. After careful consideration of the report, Government announced certain decisions on 14.1.2013 which were widely welcomed. I propose to incorporate those decisions in the Income-tax Act. The modified provisions preserve the basic thrust and purpose of GAAR. Impermissible tax avoidance arrangements will be subjected to tax after a determination is made through a well laid out procedure involving an assessing officer and an Approving Panel headed by a Judge. I propose to bring the modified provisions into effect from 1.4.2016.

151. The Rangachary Committee was appointed to look into tax matters relating to Development

Centres & IT sector and Safe Harbour rules for a number of sectors. We have issued a circular covering IT sector exports and will shortly issue a circular covering Development Centres. Rules on Safe Harbour will be issued after examining the reports of the Committee, the last of which is expected by 31.3.2013.

152. The fifth Large Tax payer Unit will be opened at Kolkata shortly.

153. I have also taken a number of administrative measures in the last few months. I propose to expand the scope of annual information returns, extend e-payment facility through more banks, extend the refund banker system to refunds of more than ₹50,000, and make e-filing mandatory for more categories of assesseees. The Income-tax department is rapidly moving towards technology-based processing as would be evident from the Central Processing Cell set up at Bengaluru and the Central Processing Cell-TDS inaugurated a few days ago at Vaishali, Ghaziabad.

154. The Direct Taxes Code (DTC) is work in progress. The DTC is not intended to be an amended version of the Income-tax Act, 1961 but a new code based on the best international practices that will be compatible with the needs of a fast developing economy. The Standing Committee on Finance has submitted its report and we attach great weight to its recommendations. My team in the Ministry of Finance is examining the recommendations and I intend to work with the Standing Committee and its Chairman in order to finalise the official amendments. I shall endeavour to bring the Bill back to this House before the end of the Budget Session.

Indirect Taxes

155. I shall now deal with indirect taxes.

156. There will be no change in the peak rate of basic customs duty of 10 percent for non-agricultural products. There will also be no change in the normal rate of excise duty of 12 percent and the normal rate of service tax of 12 percent.

157. I have a few proposals on customs duties.

158. To encourage manufacture of environment-friendly vehicles, I propose to extend the period of concession now available for specified parts of electric and hybrid vehicles upto 31.3.2015.

159. Leather and leather goods is a thrust sector for exports. I propose to reduce the duty on specified machinery for manufacture of leather and leather goods, including footwear, from 7.5 percent to 5 percent.

160. To encourage exports, I propose to reduce the duty on pre-forms of precious and semi-precious stones from 10 percent to 2 percent.

161. Export duty on de-oiled rice bran oil cake has made our exports uncompetitive. Hence, I propose to withdraw the said duty.

162. Prices of unprocessed ilmenite have gone up several fold in the export market. Considering the need to conserve our natural resources, I propose to impose a duty of 10 percent on export of unprocessed ilmenite and 5 percent on export of upgraded ilmenite.

163. The aircraft manufacture, repair and overhaul (MRO) industry is at a nascent stage. Encouraging the MRO sector will generate employment besides other benefits. Hence, I propose to provide certain concessions to the MRO industry, details of which are in the budget documents.

164. To encourage domestic production of set top boxes as well as value addition, I propose to increase the duty from 5 percent to 10 percent.

165. In order to give a measure of protection to domestic sericulture, I propose to increase the duty on raw silk from 5 percent to 15 percent.

166. Steam coal is exempt from customs duty but attracts a concessional CVD of one percent. Bituminous coal attracts a duty of 5 percent and CVD of 6 percent. Since both kinds of coal are used in thermal power stations, there is rampant misclassification. I propose to equalise the duties on both kinds of coal and levy 2 percent customs duty and 2 percent CVD.

167. There is an affluent class in India that consumes imported luxury goods such as high end motor vehicles, motorcycles, yachts and similar vessels. I am sure they will not mind paying a little more. Hence, I propose to increase the duty on such motor vehicles from 75 percent to 100 percent; on motorcycles with engine capacity of 800cc or more from 60 percent to 75 percent; and on yachts and similar vessels from 10 percent to 25 percent.

168. The baggage rules permitting eligible passengers to bring jewellery was last amended in 1991. Gold prices have risen since, and passengers have complained of harrasment. Hence, I propose to raise the duty-free limit to ₹50,000 in the case of a male passenger and ₹100,000 in the case of a female passenger, subject to the usual conditions.

169. Next, I shall deal with excise duties.

170. The readymade garment industry is in the throes of a crisis. The industry needs a lifeline. There is a demand to restore the 'zero excise duty route' for cotton and manmade sector (spun yarn) at the yarn, fabric and garment stages. I propose to accept the demand. In the case of cotton, there will be zero duty at the fibre stage also and, in the case of spun yarn, there will be a duty of 12 percent at the fibre stage. The 'zero excise duty route' will be in addition to the CENVAT route now available.

171. I propose to totally exempt handmade carpets and textile floor coverings of coir or jute from excise duty.

172. As a measure of relief to the ship building industry, I propose to exempt ships and vessels from excise duty. Consequently, there will be no CVD on imported ships and vessels.

173. What does a Finance Minister turn to when he requires resources? The answer is cigarettes. I propose to increase the specific excise duty on cigarettes by about 18 percent. Similar increases are proposed on cigars, cheroots and cigarillos.

174. SUVs occupy greater road and parking space and ought to bear a higher tax. I propose to increase the excise duty on SUVs from 27 percent to 30 percent. However, the increase will not apply to SUVs registered as taxis.

175. The excise duty rate on marble was fixed in 1996. Keeping in view the increase in prices of marble, I propose to increase the duty from ₹30 per sq. mtr to ₹ 60 per sq mtr.

176. I propose to levy 4 percent excise duty on silver manufactured from smelting zinc or lead, to bring the rate on par with the excise duty applicable to silver obtained from copper ores and concentrates.

177. About 70 percent of imported mobile phones and about 60 percent of domestically manufactured mobile phones are priced at ₹2000 or below. Mobile phones enjoy a concessional excise duty of one percent and I do not propose to change that in the case of low priced mobile phones. However, on mobile phones priced at more than ₹2000, I propose to raise the duty to 6 percent.

178. To reduce valuation disputes, I propose to provide for MRP based assessment in respect of branded medicaments of Ayurveda, Unani, Siddha, Homeopathy and bio-chemic systems of medicine. There will be an abatement of 35 percent.

179. As regards service tax, I have only a few proposals. The negative list became effective after the last Budget. Stability in the tax regime is important. Hence, I propose to include only two services which deserve to be in the negative list. They are vocational courses offered by institutes affiliated to the State Council of Vocational Training and testing activities in relation to agriculture and agricultural produce.

180. Last year, at the request of the film industry, full exemption of service tax was granted on copyright on cinematography. The industry has now requested to limit the benefit of exemption to films exhibited in cinema halls. I propose to accept the request.

181. At present, service tax does not apply to air conditioned restaurants that do not serve liquor. The distinction is artificial, and I propose to levy service tax on all air conditioned restaurants.

182. Homes and flats with a carpet area of 2,000 sq.ft. or more or of a value of ₹1 crore or more are high-end constructions where the component of 'service' is greater. Hence, I propose to reduce the rate of abatement for this class of buildings from 75 percent to 70 percent. Existing exemptions from service tax for low cost housing and single residential units will continue.

183. While there are nearly 17,00,000 registered assesseees under service tax, only about 7,00,000 file returns. Many have simply stopped filing returns. We cannot go after each of them. I have to motivate them to file returns and pay the tax dues. Hence, I propose to introduce a one-time scheme called 'Voluntary Compliance Encouragement Scheme'. A defaulter may avail of the scheme on condition that he files a truthful declaration of service tax dues since 1.10.2007 and makes the payment in one or two instalments before prescribed dates. In such a case, interest, penalty and other consequences will be waived. I hope to entice a large number of assesseees to return to the tax fold. I also hope to collect a reasonable sum of money.

184. There are a few more decisions which entail small gains or losses of revenue. They are reflected in the budget documents.

185. My tax proposals on the direct taxes side are estimated to yield ₹13,300 crore and on the indirect taxes side ₹4,700 crore.

Goods and Services Tax

186. Hon'ble Members will recall that I had first mentioned the Goods and Services Tax (GST) in the Budget speech for 2007-08. At that time, it was thought that GST could be brought into effect from 1.4.2010. Alas, that was not to be, although all States swear by the benefit of GST. However, my recent meetings with the Empowered Committee of State Finance Ministers has led me to believe that the State Governments – or, at least, the overwhelming majority – are agreed that there is need for a Constitutional amendment; there is need for State Governments and the Central Government to pass a GST law that will be drafted by the State Finance Ministers and the GST Council; and there is need for the Centre to compensate the States for loss due to the reduction in the CST rate. I hope we can take this consensus forward in the next few months and bring to this House a draft Bill on the Constitutional amendment and a draft Bill on GST. Hope inspires courage. I propose to take the first decisive step by setting apart, in the Budget, a sum of ₹9,000 crore towards the first instalment of the balance of CST compensation. I appeal to the State Finance Ministers to realise the serious intent of the Government to introduce GST and come forward to work with the Government and bring about a transformational change in the tax structure of the country.

Conclusion

187. Madam Speaker, the last day of February is another day in the life of a nation. We pause today, to reflect on the past and the future, and we shall resume our work tomorrow. Our work will be seen in our actions. How shall we act? I turn to my favourite poet, Saint Tiruvalluvar, who said:

“Kalangathu Kanda Vinaikkan Thulangathu

Thookkang Kadinthu Seyal”

(What clearly eye discerns as right, with steadfast will

And mind unslumbering, that should man fulfil)

188. Any economist will tell us what India can become. We are the tenth largest economy in the world. We can become the eighth, or perhaps the seventh, largest by 2017. By 2025, we could become a \$ 5 trillion economy, and among the top five in the world. What we will become depends on us and on the choices that we make. Swami Vivekananda, whose 150th birth anniversary we celebrate this year, told the people: “All the strength and succour you want is within yourself. Therefore, make your own future.”

As a resolute step towards that future, Madam Speaker, I commend the Budget to the House.

- P CHIDAMBARAM, FINANCE MINISTER, INDIA