India General Budget 2006-07

Budget highlights:

CORE

* Spending estimated at 5,639.91 billion rupees ($126.7 billion) in 2006/07
* Tax revenues estimated at 4,034 billion rupees ($90.61 billion) in 2006/07
* Subsidies estimated at 462.1 billion rupees down from 468.7 in 05/06
* Gross government borrowing seen at 1.53 trillion rupees in 06/07
* Partial stake sale in state firms estimated to raise 38.4 billion rupees in 06/07
* GDP growth likely to be 8.1 percent in 05/06. India's Oct-Dec 2005 quarterly GDP growth was at 7.6 percent.
* Government aims to raise GDP growth to 10 percent
* Federal tax-GDP ratio 11.2 percent on 06/07 versus 10.5 percent for the year before
* Fiscal deficit in 2006/07 likely to be 3.8 percent of GDP, compared to an estimated 4.1 percent the previous year
* Government revenue deficit seen at 2.1 percent of GDP in 2006/07, compared to 2.6 percent the year before
* Gross budgetary support for 2006/07 at 1.73 trillion rupees
* FDI inflows up to November 2005 at $4 billion
* Defence spending increased to 890 billion rupees in 06/07 from 830 billion in the previous year
* Finance minister says services sector expected to contribute 54 percent of GDP in 06/07

TAXES

* No new direct taxes to be introduced
* No change in personal and corporate tax
* Services tax raised to 12 percent from 10 percent
* The government will set nationwide goods and services sales tax on April 1, 2010
* More services will be brought under the tax net, including ATM operations, registrars, share transfer agents, and bankers to an issue, sponsorship of events other than sports, and international travel other than economy class trips
* Securities and transaction tax to be raised by 25 percent
* Customs duty on non-ferrous metals to be reduced to 7.5 percent from 10 percent
* India to reduce customs duties on life-saving cancer and AIDS drugs
* Government to raise customs duty on vanaspati to 80 percent
* The excise duty on small cars to be cut to 16 percent
* The food processing industry will get duty relief
* The levy on crude, called a cess, will be raised to 2,500 rupees per tonne from 1,800 rupees
* The excise duty on cigarettes will be increased by 5 percent

FINANCIAL SECTOR

* Plan to let Indian mutual funds invest up to $2 billion abroad from $1 billion
* FII investment limit in government debt raised to $2 billion from $1.7 billion
* To introduce comprehensive bill on insurance in parliament in 2006/07
* Single exchange for corporate debt trading to be set up

RURAL INVESTMENT:

* Farm sector output likely to grow 2.3 percent in 2005/06
* Government to spend 143 billion rupees ($3.2 billion) on a rural jobs guarantee scheme in 06/07 that aims to tackle rural poverty, compared to 117 billion the year before.
* Allocation of 186.96 billion rupees for rural infrastructure projects in 2006/07
* Banks to raise farm credit to 1.75 trillion rupees in 06/07 from 1.42 trillion
* Farmers to receive short-term credit at 7 percent

HEALTH AND EDUCATION:

* Education spending to be increased by 31.5 percent, and health spending by 22 percent in the coming financial year
* Allocation for primary education increased to 100.41 billion rupees in 06/07 from 71.56 billion.

TRADE AND INDUSTRY:

* The textiles, automobiles, leather, food processing and tourism sectors will be boosted in a bid to create jobs.
* Food processing sector to be treated as a priority for bank lending
* Petroleum, chemicals and petro-chemicals investment zones to be set up
* India to be promoted as a semiconductor manufacturing hub
* Aims to double India's share of world exports to 1.5 percent by 2008/09

INFRASTRUCTURE:

* To raise power generation capacity by 15,000 megawatts by March 2007
* Comprehensive review of coal policy needed
* Investment of 220 billion rupees in oil refining expected over the next few years. The government will encourage investment in refineries, pipelines and green fuel.
* The country's highways development programme to receive 99.45 billion rupees in 2006/07. The government has identified three new road projects that will be built under a new special purpose vehicle. ($1 = 44.5 rupees)

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SUMMARY

Over a hundred years ago, a restless young man in his quest for the core of all spirituality admonished his fellow men in the following words: "We reap what we sow. We are the makers of our own fate. The wind is blowing; those vessels whose sails are unfurled catch it, and go forward on their way, but those which have their sails furled do not catch the wind. Is that the fault of the wind?....... We make our own destiny." Those are the immortal words of Swami Vivekananda. Let us believe in our destiny, let us make our future.

In the General Budget for 2006-07 presented in a 110-minute budget speech in the Lok Sabha today, the Finance Minister, Shri P. Chidambaram, has announced a number of initiatives to spur economic growth and provide justice to the disadvantaged sections of the society.

The bulk of the Budgetary resources have gone to the UPA government's 8 flagship programmes – Sarva Siksha Abhiyan, Mid Day Meal Scheme, Rajiv Gandhi Drinking Water Mission, Total Sanitation Campaign, National Rural Health Mission, Integrated Child Development Services, National Rural Employment Guarantee Scheme and Jawaharlal Nehru National Urban Renewal Mission. The total allocation for these programmes will be Rs. 50,015 crore as against Rs. 34,927 crore during 2005-06. This shows an increase of 43.2%.

The outlay for the Sarva Sikhsha Abhiyan has gone up to Rs.10,041 crore in 2006-07, as compared to Rs.7,156 crore in the previous year. Under the programme, 500,000 additional classrooms will be constructed and 150,000 more teachers will be appointed. Rs.8,746 crore will be transferred to the Prarambhik Siksha Kosh from the revenues raised through the education cess. For the Mid Day Meal Scheme, the allocation is proposed to be increased to Rs.4,813 crore in 2006-07 as against Rs.3,010 crore in the previous year. The provision for the Rajiv Gandhi National Drinking Water Mission has gone up from Rs.3,645 crore to Rs.4,680 crore. The government would also provide non-recurring assistance of Rs.213 crore in 2006-07 for setting up district level water testing laboratories. The provision for the Rural Sanitation Campaign has been increased by Rs.90 crore to Rs. 720 crore in 2006-07. The allocation for the National Rural Health Mission has been increased to Rs.8,207 crore from Rs.6,553 crore in the previous year. The total allocation for the Integrated Child Development Services has been increased from Rs.3,315 crore to Rs.4,087 crore. Under the National Rural Employment Guarantee Scheme, the total allocation for rural employment will be Rs.14,300 crore during 2006-07. For the Jawaharlal Nehru Urban Renewal Mission, a grant of Rs.4,595 crore has been proposed against the estimated outlay of Rs.6,250 crore.

Reflecting the government's priority for education and health, the Finance Minister has increased the allocation for education by 31.5% to Rs.24,115 crore and for health and family welfare by 22% to Rs.12,546 crore. The allocation for defence has gone up from Rs.83,000 crore to Rs.89,000 crore. The total Budget allocation for the North Eastern region is Rs.12,041 crore which is an increase of 18% over the Budget estimates of 2005-06. For the J&K Reconstruction Plan, a sum of Rs.848 crore has been provided. This includes Rs.230 crore for the Baglihar project. A special central plan assistance of Rs.1,300 crore has been proposed to enable the state to undertake reforms in the power sector.

The Finance Minister proposed to increase the pension granted to destitute persons above the age of 65 years under the National Social Assistance Programme from Rs.75 to Rs.200 per month. Rs.1,430 crore has been provided for the purpose during 2006-07.

The allocation for schemes benefiting only the scheduled castes and scheduled tribes has been enhanced by 14.5% to Rs.2,902 crore and the allocation for schemes with at least 20% allocation for SCs and STs has been enhanced by 13.9% to Rs.9,690 crore. For the schemes where 100% of the allocation is for the benefit of women as well as schemes where at least 30% of the allocation is targeted towards women, the outlay is Rs.28,737 crore.

Shri Chidambaram also announced the government's decision to finance 20,000 merit-cum-means-based scholarships to encourage students belonging to minorities communities to pursue higher studies. The corpus fund of the Maulana Azad Educational Foundation has been doubled to Rs.200 crore. Under the Kasturba Gandhi Balika Vidyalaya Scheme, 1000 new residential schools for girls from SC,ST,OBC and minority communities will be opened in 2006-07. An additional sum of Rs.172 crore has been provided for the purpose. A sum of Rs.3,000 will be deposited in the name of the girl child who passes the VIII standard examination and enrols in a secondary school. She would be entitled to withdraw the amount on reaching 18 years of age

For the Bharat Nirman which aims at building infrastructure and bringing basic amenities to rural India, Budgetary support has been increased by 54%. Rs.18,696 crore has been provided for the programme in 2006-07 against Rs.12,160 crore during the current year.

Underlining the government's resolve to promote investment in every sector, the Finance Minister announced equity support of Rs.16,901 crore and loans of Rs.2,789 crore to Central Public Sector Enterprises including Railways. He proposed to constitute an expert body to look into the potential of the gems & jewellery industry.

On the agricultural front, the Finance Minister identified assured irrigation, credit, diversification and creation of a market for agricultural products as thrust areas. The outlay for the Accelerated Irrigation Benefit Programme (AIBP) has been raised to Rs.7,120 crore from Rs.4,500 crore during 2005-06. The Ministry of Water Resources will revamp the Command Area Development Programme to allow participatory irrigation management through water users' associations. The design of the programme for repair, renovation and restoration or water bodies has been finalized and 20,000 water bodies with a command area of 1.47 million hectares have been identified in the first phase. The estimated cost is Rs.4,481 crore and the funding pattern has been finalized. The farm credit is expected to cross the target of Rs.141,500 crore for the current year. The Finance Minister proposed to ask the banks to increase the level of credit to Rs.175,000 crore in 2006-07 and add another 50 lakh farmers to their portfolio. Banks have also been asked to open a separate window for self-help groups or joint liability groups of tenant farmers and ensure that a certain proportion of total credit is extended to them. Announcing relief to the farmers who have taken crop loans for kharif and rabi 2005-06, the Finance Minister said that an amount equal to 2% points of the borrower's interest liability on the principal amount up to Rs.100,000 will be credited to his bank account before 31st March, 2006. A sum of 1,700 crore has been provided for the purpose. Government has also decided to ensure that the farmer receives short-term credit at 7% with an upper limit of Rs.300,000 on the principal amount. The policy will come into force with effect from kharif 2006-07. The Finance Minister proposed to increase the corpus of the Rural Infrastructure Development Fund (RIDF) in 12 tranches to Rs.10,000 crore. He also proposed to open a separate window under RIDF XII for rural roads with a corpus of Rs.4,000 crore during 2006-07. The National Agricultural Insurance Scheme will be continued in its present form for kharif and rabi 2006-07.

The Finance Minister proposed to ask the banking sector to credit-link an additional 385,000 self-help groups (SHGs) in 2006-07. NABARD will be asked to open a separate line of credit for financing farm production and investment activities through SHGs. The Finance Minister proposed to appoint a Committee on Financial Inclusion to bring more cultivator households within the banking fold. On horticulture and fisheries, the Finance Minister said that the PPP model would be employed to set up model terminal markets in different parts of the country. A sum of Rs.150 crore has been earmarked for this purpose in 2006-07.

On the manufacturing front, the allocation for the textiles sector under the Technology Upgradation Fund Scheme (TUFS) has been increased from Rs.435 crore to Rs.535 crore. Rs.189 crore will be provided for the Scheme for Integrated Textiles Park. A Jute Technology Mission will be launched in 2006-07 and a National Jute Board will be established . Yarn depots will be established in different parts of the country to ensure uninterrupted supply of yarn to weavers. It is also proposed to launch a ‘handloom’ mark. A scheme similar to TUFS will be introduced for the handloom sector to provide interest subsidy on term loans. NABARD will create a separate window with a corpus of Rs.1,000 crore for refinancing loans with the food processing sector.

The Ministry of Small Scale Industries has identified 180 items for de-reservation. In order to give a fresh impetus to lending by the Small Industries Development Bank of India, the Finance Minister proposed some steps including recognizing small and medium enterprises in the services sector, provision of Rs.118 crore during 2006-07 to raise the corpus of the Credit Guarantee Fund and extension of insurance cover to approximately 30,000 borrowers.

For the telecommunication sector, Rs.1,500 crore will be provided from the Universal Services Obligation Fund. To create an enabling and empowered framework to carry out reforms in the power sector, the Prime Minister will establish an Empowered Committee of Chief Ministers and Power Ministers. A sum of Rs.597 crore has been provided for non-conventional energy resources. Under the Rajiv Gandhi Gramin Vidyutikaran Yojana, 40,000 more villages will be electrified during 2006-07. Coal reserves of 20 billion tonnes will be deblocked for power projects. The Budget support for the National Highways Development Programme will be enhanced from Rs.9,320 crore to Rs.9,945 crore. A special accelerated road development programme for the North Eastern Region at an estimated cost of Rs.4,618 crore has been approved. For 2006-07, a sum of Rs.550 crore will be provided for the programme. The government has decided to develop 1,000 kilometres of access-controlled Expressways. The National Highway Authority of India will be restructured and made more effective.

The plan allocation for the Department of Shipping has been raised by 37% to Rs.735 crore. It is proposed to carry out a detailed study to identify a suitable location for a new deep draft port in West Bengal.

For strengthening the capital market, the Finance Minister proposed several measures including an increase in the limit on FII investment in government securities from $ 1.75 billion to $ 2 billion and the limit on FII investment in corporate debt from $ 0.5 billion to $ 1.5 billion, raising the ceiling on aggregate investment by mutual funds in overseas instruments from $ 1 billion to $ 2 billion and removing the requirement of 10% reciprocal shareholding and allowing a limited number of qualified Indian mutual funds to invest cumulatively upto $ 1 billion in overseas exchange traded funds.

The Finance Minister announced a grant of Rs.50 crore each for the Universities of Kolkata, Mumbai and Madras to mark the beginning of their 150th year of celebrations. He also proposed a special grant of Rs.100 crore for the Punjab Agricultural University, Ludhiana. Rs.97 crore will be provided for upgradation of ITIs during 2006-07. Rs.5,000 crore has been allocated during 2006-07 for the districts identified as backward as well as under the Rashtriya Sam Vikas Yojana. 25 projects in mission mode will be launched under the National E-governance plan.

Under the new scheme of tax devolution, Rs.94,402 crore will be released as the states' share in the current year compared to Rs.78,595 crore in 2004-05. As regards grants-in-aid, the amounts granted in 2004-05 and 2005-06 (RE) are Rs.12,081 crore and Rs.25,134 crore respectively. Rs.3,000 crore has been provided towards compensation for VAT losses if any in 2006-07.

The gross budgetary support for the plan during 2006-07 has been fixed at Rs.172,728 crore in 2006-07 representing an increase of 20.4%. Out of this, the central plan will receive a support of Rs.131,285 crore. . The gross tax GDP ratio increased to 10.5% in 2005-06(RE) and is estimated to increase to 11.2% in 2006-07 (BE). During 2004-05, the gross fiscal deficit was less than the gross budgetary support for the plan after 20 years. According to revised estimates for 2005-06, the revenue deficit for the current year will be only 2.6% and the fiscal deficit only 4.1% as against the estimated figures of 2.7% and 4.3% respectively. As a proportion of total expenditure, plan expenditure has increased from 26.6% in 2004-05 to 28.3% in 2005-06 (RE) and further to 30.6% in 2006-07 (BE). Non-plan expenditure in 2006-07 is estimated to be Rs.391,263 crore. The increase of 5.5% is one of the smallest in recent years. According to the Budget Estimates for 2006-07, the total expenditure is estimated at Rs.563,991 crore. Total revenue receipts of the central government is estimated at Rs.403,465 crore and the revenue expenditure at Rs.488,192 crore. Consequently, the revenue deficit is estimated at Rs.84,727 crore which is 2.1% of the GDP. The fiscal deficit is estimated at Rs.148,686 crore, which is 3.8% of the GDP.

The Finance Minister expressed happiness over the growth rate of 7.5%, gross domestic savings of 29.1% of GDP and the rate of gross capital formation of 30.1% of GDP during 2004-05. The GDP growth target for the Tenth Plan was set at 8%. Shri Chidambaram said that thanks to three years of 7.5% plus growth, it is possible that the overall growth rate will be 7%.

Presenting his tax proposals, the Finance Minister noted that the tax reforms attempted in the UPA Government's first and second budgets have yielded encouraging results. The fact that in 2004-05, gross tax revenues (provisional actuals) increased by 19.9 per cent and according to revised estimates in 2005-06 they are expected to increase by 21.4 per cent over the respective previous years, confirm the Government's belief that tax rates should be kept moderate and stable, he said.

Indirect Taxes

Customs:

Keeping in line with the Government's policy of reducing customs duty, the Finance Minister announced the reduction peak rate for non-agricultural products from 15 per cent to 12.5 per cent. Duty on alloy steel and primary and secondary non-ferrous metals has been reduced from 10 per cent to 7.5 per cent. The ferro alloys will also have 7.5 per cent duty while the duty on steel melting has been raised to 5 per cent thus bringing it on par with primary steel. The duty on mineral products has been reduced to 5 per cent, with a few exceptions while the duty has been reduced from 5 per cent to 2 per cent.

Refractories and a number of materials for manufacture of refractories will not attract a reduced duty of 7.5 per cent.

There is a good news for chemical industry. The duty on basic and organic chemicals is to be reduced from 15 per cent to 10 per cent; on basic cyclic and acyclic hydrocarbons and their derivatives to 5 per cent and on catalysts from 10 per cent to 7.5 per cent. The duty on major bulk plastics like PVC, LDPE and PP is to be reduced from 10 per cent to 5 per cent; on styrene, EDC and VCM which are raw materials for plastics will have a reduced duty of 2 per cent while the naptha for plastics will have nil duty.

The Finance Minister has announced relief for patients suffering from cancer and AIDS. The customs duty on 10 anti-AIDS and 14 anti-cancer drugs to 5 per cent. Duty on certain life saving drugs, kits and equipment from 15 per cent to 5 per cent. The Finance Minister also announced that these drugs will also be exempted from excise duty and CVD.

Duty on packaging machines is to be reduced from 15 per cent to 5 per cent. In the oil and natural gas sectors also it has been proposed to extend a concessional project rate of 10 per cent to pipeline projects for transportation of natural gas, crude petroleum and petroleum products.

The Finance Minister has also made some important proposals that involve both excise and customs duties. Describing the man made textile industry as a growth and employment driver and therefore, as an encouragement to it, he has proposed reduction of excise duty on all man made fibre yarn and filament yarn from 16 per cent to 8 per cent; import duty on all man made fibres and yarns from 15 per cent to 10 per cent. Import duty on raw materials such as DMT, PTA and MEG has been reduced from 15 to 10 per cent while the import duty on paraxylene to 2 per cent.

The custom duty on vanaspati is to be increased to 80 per cent with a view to protect the domestic vanaspati industry. The Finance Minister has also proposed a CVD of 4 per cent to be imposed on all imports with a few exception; while full credit to be allowed to manufacturers of excisable goods.

With declining import duties the Finance Minister said that the export oriented units (EOUs) should have a level playing field with domestic tariff area (DTA) units. Therefore, he has proposed to adjust the duty rates on clearances by EOUs to the DTA at 25 per cent of basic custom duty plus excise duty on like goods.

Excise:

Small cars and aerated drinks are going to be cheaper. Reiterating the Government’s intention to converge all rates at the present CENVAT rate of 16 per cent, the Finance Minister proposed reduction of excise duty on aerated drinks and cars also to 16 per cent. These are the only two items, which is still attract the higher rate of 24 per cent. The reduction on cars however, will only be for small cars i.e. a car of length not exceeding 4,000 mm and with an engine capacity not exceeding 1,500 cc for diesel cars and not exceeding 1,200 cc for petrol cars. Finance Minister hoped that the car industry will seize the opportunity to make India a hub for the manufacture of small and fuel-efficient cars.

An 8 per cent excise duty has been imposed on packaged software sold over the counter while the customized software and software packages downloaded from the internet will be exempt from this levy. DVD Drives, Flash Drives and Combo Drives will be fully exempted from the excise duty.

Food processing industry has been given a fillip as the condensed milk, ice cream, preparation of meat, fish and poultry, pectins, pasta and yeast have been fully exempted from excise duties. Excise duty on ready-to-eat packaged foods and instant food mixes, like dosa and idli mixes, will be reduced from 16 per cent to 8 per cent.

Leather and footwear industries have been recognized as thrust sectors. Two vegetable tanning extracts – quebracho and chestnut are exempted from duty while the duty on footwear with a retail sale price is to be reduced from 16 per cent to 8 per cent.

A number of concessions have been announced in the household sector. The Finance Minister has proposed a concessional rate of 8 per cent to all LPG stoves without any value limit. Excise duty on compact fluorescent lamps has also been proposed to be reduced from the present 16 per cent to 8 per cent. Henceforth, the glassware will attract excise duty of 16 per cent on par with ceramicware and plasticware. Excise duty on specified printing, writing and packing paper is proposed to be reduced from 16 per cent to 12 per cent with a view to encourage capacity addition in this sector.

The cess on domestically produced petroleum crude under the Oil Industries Development Act is to be increased from Rs.1800 per metric tonne to Rs.2,500 per metric tonne keeping in view the assurance from the industry that this will be absorbed by the oil producing companies and will have no impact on retail prices of petroleum products.

The Finance Minister has proposed re-imposition of excise duty at 12 per cent on computers to enable domestic manufacturers to take CENVAT credit as well as to face competition from imports. This will have no impact on prices of computers as the duty will be the eligible for full input tax credit. Similarly, an excise duty of 16 per cent has been proposed on set top boxes with simultaneous reduction of custom duty from 15 per cent to nil.

Excise duty on cigarettes has been increased by about 5 per cent. The Finance Minister has also proposed to remove many end-use based and other exemptions on excise and customs tariffs on the basis of the comprehensive review of the tariffs. The exemption for the Small Scale Industry sector will, however, remain unchanged.

Service Tax :

The service tax net has been widened keeping in view the estimated 54 per cent contribution to GDP by this sector. The new services to be covered include ATM operations, maintenance and management; registrars, share transfer agents and bankers to an issue; sale of space or time, other than in the print media, for advertisements; sponsorship of events, other than sports events, by companies; international air travel excluding economy class passengers; container services on rail, excluding the railway freight charges; business support services; auctioneering; recovery agents; ship management services; travel on cruise ships; and public relations management services. Coverage of certain services now subject to service tax is also to be expanded.

With a view to give relief to the leasing and hire purchase industry, interest and instalments of the principal amount will be abated in calculating the value of the service.

The Finance Minister has proposed to set April 1, 2010 as the date for introducing national level Goods and Service Tax (GST). As a step in the direction of a progressive convergence of the service tax rate and the CENVAT rate, the Finance Minister has proposed to increase the service tax rate from 10 per cent to 12 per cent. The net impact is likely to be very small as the service tax paid can be credited against service tax payable or excise duty payable, he added.

Direct Taxes

On the direct taxes side a good news is that there will be no change in the rates of personal income tax or corporate income tax, nor any new taxes are being imposed. The one-by-six scheme obliging certain categories of persons to file income tax returns has been abolished.

The Finance Minister has proposed to revise certain tax rates in the quest of equity. Minimum Alternate Tax (MAT) rate is to be increased from 7.5 per cent of book profit to 10 per cent which is only one-third of the normal rate. Long-term capital gains arising out of securities are also to be included in calculating book profits. The Finance Minister has proposed to extend the period to take credit for MAT from five years to seven years as well as for adjusting MAT credit while calculating interest liability. An increase of 25 per cent has been proposed, across the board, on all rates of Securities Transaction Tax (STT).

The Finance Minister has proposed to extend the terminal date for developing industrial park from the present March 31, 2006 to March 31, 2009 under Section 80IA of the Income Tax Act which applies to infrastructure facilities. For the power sector, however, the extended date will be March 31, 2010.

Some relief has been provided on savings as the Finance Minister has proposed to recast the provisions in this regard. He has proposed to include investments in fixed deposits in scheduled banks for a term of not less than five years in section 80C of the Income Tax Act. Removal of the limit of Rs.10,000 in respect of contribution to certain pension funds in section 80CCC, has also been proposed subject to the overall ceiling of Rs.1,00,000. The definition of the open-ended equity-oriented schemes of mutual funds in the Income Tax Act has been proposed to be aligned with the definition adopted by SEBI. Open-ended equity-oriented schemes and close-ended equity-oriented schemes are to be treated on par for exemption from dividend distribution tax. In view of the moderate interest rates, the exemptions under section 10(23G) have been removed.

Primary Agricultural Credit Societies (PACS) and Primary Cooperative Agricultural and Rural Development Banks (PCARDB) will continue to be exempt from tax under section 80P of the Income Tax Act. All other cooperative banks are to be excluded from the scope of that section.

The benefit of Section 54EC has been withdrawn. Its scope, however, has been restricted to only two institutions viz. NHAI and REC. For NABARD, SIDBI and NHB, which are banks, the route of zero coupon bonds to raise low cost funds has already been opened. However, the Finance Minister has assured to provide appropriate support to these institutions to access resources, if needed.

With a view to check misuse of Income Tax Act by many charitable institutions, the Finance Minister has proposed to tax the anonymous or pseudonymous donations to wholly charitable institutions at the highest marginal rate. However, such donations to partly religious and partly charitable institutions are to be taxed only if the donation is specifically for an educational and medical purpose. The Finance Minister however, made it clear that wholly religious institutions and religious trusts will not be covered by the new provision.

The constituency allowances of the Members of State Legislatures are to be treated at par with those received by Members of Parliament.

The Finance Minister has proposed to take power to issue permanent account number (PAN) suo motu in certain cases and to direct persons to apply for PAN in certain cases in view of almost 60 per cent high-value transactions taking place without quoting PAN as revealed in the scrutiny of Annual Information Returns (AIR). Banking Cash Transaction Tax (BCTT) is proposed to be continued for some more time until the AIR system is able to capture all significant financial activities.

The Finance Minister has also proposed certain changes in chapter XII-H of Income Tax Act relating to Fringe Benefit Tax (FBT). These relate to valuation of benefit on tour and travel at 5 per cent instead of 20 per cent. On hospitality and hotel boarding and lodging in case of airline and shipping industry too, the benefit is to be valued at 5 per cent. Expenditure on free sample of medicines and of medical equipment distributed to doctors, as also the expenses on brand ambassador and celebrity endorsement have been excluded. The Finance Minister has also prescribed a threshold of Rs.1,00,000 under section 115WB(1)(c) so that only a contribution by an employer to an approved superannuation fund in excess of Rs.1,00,000 per year per employee will attract FBT. Combined with an exemption upto Rs.1,00,000 on employees' contribution to an approved superannuation fund , the Minister said that there can now be a tax exempt contribution of upto Rs.2,00,000 per year for the benefit of an employee.

Modernising Tax Administration:

In his Budget speech, the Finance Minister recounted various steps which have been taken to modernize tax administration through Business Process Reengineering (BPR) and setting up of nationwide networking of Departments of Income Tax and Customs & Central Excise. Creation of national data bases and facilities like jurisdiction-free filing of returns, online tracking of status of accounts and refunds of income tax through an increasing use of technology, e-payment of customs and excise duty and introduction of a risk management system in the customs department will go alongwith in facilitating tax administration.

In this context, the Finance Minister recalled innovations like the Gender Budget, the Outcome Budget etc. in the last two budgets of the Government and placed before the House another innovation i.e. statement on revenue foregone or 'tax expenditure statement' which focuses on the basic issues of efficiencies and transparency and not that of tax policy under the system estimates and projections are intended to indicate the potential revenue gain that will be realized by removing exemptions, incentives, weighted deductions and similar measures. The cost of each tax concession is determined separately, assuming that all other tax provisions remain unchanged. To the extent the behaviour or economic agents, overall economic activity or other government policies could change along with the elimination of the specific tax preference, the revenue implications could be different. The Minister said that this statement captures the departures from the normal tax regime. Underlining that the exercise is a first attempt, the Minister said that it will be fine tuned in the years to come.

VAT and CST

The Minister underlined that the VAT has been a resounding success and most States have implemented it with effect from April 1, 2005 and hoped that the non-VAT states will soon join the mainstream. While the Minister assured to come to the House with firm proposals for compensation of the loss of revenue to the states after the Empowered Committee and the Government, he drew attention to the fact that states are taxing LPG (domestic) at high rates instead of bearing a portion of the burden of high prices of the petroleum products. In order to moderate the price of LPG (domestic), he proposed to include it in the list of ‘declared goods’ under the CST Act.

The Finance Minister’s tax proposal on the direct taxes are estimated to yield a gain of about Rs.4,000 crore. On the indirect tax side, the gain is estimated at Rs.2,000 crore.

The Finance Minister concluded his budget speech by underlining that the world has recognized the potential of India. “It is now for us, the generation to which has been given the privilege of carrying the torch, to rediscover the greatness of this country and the potential of its people. The young people of India are building castles, it may appear that those castles are in the air, but as Henry David Thoreau said: "If you have built castles in the air, your work need not be lost; that is where they should be. Now put the foundations under them." It is our duty to put the foundations on which the young can build their castles. The UPA Government has pledged itself to that task.