

Key Features of Budget 2011-2012

OPPORTUNITIES

- Swift and broad based growth in 2010-11 has put the economy back to its pre-crisis growth trajectory. Fiscal consolidation has been impressive.
- Significant progress in critical institutional reforms that would set the pace for double-digit growth in the near future.
- Dynamism in the rural economy due to scaled up flow of resources to the rural areas.



CHALLENGES

- Structural concerns on inflation management to be addressed by improving supply response of agriculture to the expanding domestic demand and through stronger fiscal consolidation.
- Implementation gaps, leakages from public programmes and the quality of outcomes pose a serious challenge.
- Impression of drift in governance and gap in public accountability is misplaced. Corruption as a problem to be fought collectively. Government to improve the regulatory standards and administrative practices.
- Inputs from colleagues on both sides of House are important in the wider national interest.
- Budget 2011-12 to serve as a transition towards a more transparent and result oriented economic management system in India.

OVERVIEW OF THE ECONOMY

- Gross Domestic Product (GDP) estimated to have grown at 8.6 per cent in 2010-11 in real terms. Economy has shown remarkable resilience.
- Continued high food prices have been principal concern this year.
- Consumers denied the benefit of seasonal fall in prices despite improved availability of food items, revealing shortcomings in distribution and marketing systems.
- Monetary policy measures taken expected to further moderate inflation in coming months.
- Exports have grown by 29.4 per cent, while imports have recorded a growth of 17.6 per cent during April to January 2010-11 over the corresponding period last year.



- Indian economy expected to grow at 9 per cent with an outside band of +/- 0.25 per cent in 2011-12.
- Average inflation expected lower next year and current account deficit smaller.

SUSTAINING GROWTH

Fiscal consolidation

- Fiscal consolidation targets at Centre and States have shown positive effect on macro economic management of the economy.
- Amendment to Centre's FRBM Act, 2003 laying down the fiscal road map for the next five years to be introduced in the course of the year.
- Proposal to introduce the Public Debt Management Agency of India Bill in the next financial year.



Tax Reforms

- Direct Taxes Code (DTC) to be finalised for enactment during 2011-12. DTC proposed to be effective from April 1, 2012.
- Areas of divergence with States on proposed Goods and Services Tax (GST) have been narrowed. As a step towards roll out of GST, Constitution Amendment Bill proposed to be introduced in this session of Parliament.
- Significant progress in establishing GST Network (GSTN), which will serve as IT infrastructure for introduction of GST.



Expenditure Reforms

- A Committee already set up by Planning Commission to look into the extant classification of public expenditure between plan, non-plan, revenue and capital.

Subsidies

- Nutrient Based Subsidy (NBS) has improved the availability of fertiliser; Government actively considering extension of the NBS regime to cover urea.
- Government to move towards direct transfer of cash subsidy to people living below poverty line in a phased manner for better delivery of kerosene, LPG and fertilisers. Task force set up to work out the modalities for the proposed system.

People's ownership of PSUs



- Overwhelming response to public issues of Central Public Sector Undertakings during current year.
- Higher than anticipated non-tax revenue has led to rescheduling of some disinvestment issues planned for current year.
- ₹ 40,000 crore to be raised through disinvestment in 2011-12.
- Government committed to retain at least 51 per cent ownership and management control of the Central Public Sector Undertakings.

INVESTMENT ENVIRONMENT

Foreign Direct Investment

- Discussions underway to further liberalise the FDI policy.



Foreign Institutional Investors

- SEBI registered mutual funds permitted to accept subscription from foreign investors who meet KYC requirements for equity schemes.
- To enhance flow of funds to infrastructure sector, the FII limit for investment in corporate bonds issued in infrastructure sector being raised.

Financial Sector Legislative Initiatives

- To take the process of financial sector reforms further, various legislations proposed in 2011-12.
- Amendments proposed to the Banking Regulation Act in the context of additional banking licences to private sector players.

Public Sector Bank Capitalisation



- ₹ 6,000 crore to be provided during 2011-12 to enable public sector banks to maintain a minimum of Tier I CRAR of 8 per cent.

Recapitalisation of Regional Rural Banks

- ₹ 500 crore to be provided to enable Regional Rural Banks to maintain a CRAR of at least 9 per cent as on March 31, 2012.

Micro Finance Institutions

- “India Microfinance Equity Fund” of ₹ 100 crore to be created with SIDBI. Government considering putting in place appropriate regulatory framework to protect the interest of small borrowers.
- “Women’s SHG’s Development Fund” to be created with a corpus of ₹ 500 crore.



Rural Infrastructure Development Fund

- Corpus of RIDF XVII to be raised from ₹ 16,000 crore to ₹ 18,000 crore.

Micro Small and Medium Enterprises

- ₹ 5,000 crore to be provided to SIDBI for refinancing incremental lending by banks to these enterprises.
- ₹ 3,000 crore to be provided to NABARD to provide support to handloom weaver co-operative societies which have become financially unviable due to non-repayment of debt by handloom weavers facing economic stress.
- Public sector banks to achieve a target of 15 per cent as outstanding loans to minority communities under priority sector lending at the earliest.



Housing Sector Finance

- Existing scheme of interest subvention of 1 per cent on housing loan further liberalised.
- Existing housing loan limit enhanced to ₹ 25 lakh for dwelling units under priority sector lending.
- Provision under Rural Housing Fund enhanced to ₹ 3,000 crore.
- To enhance credit worthiness of economically weaker sections and LIG households, a Mortgage Risk Guarantee Fund to be created under Rajiv Awas Yojana.
- Central Electronic Registry to prevent frauds involving multiple lending on the same immovable property to become operational by March 31, 2011.



Financial Sector Legislative Reforms Commission

- Financial Sector Legislative Reforms Commission set up to rewrite and streamline the financial sector laws, rules and regulations.
- Companies Bill to be introduced in the Lok Sabha during current session.

AGRICULTURE

- Removal of production and distribution bottlenecks for items like fruits and vegetables, milk, meat, poultry and fish to be the focus of attention this year.



- Allocation under Rashtriya Krishi Vikas Yojana (RKVY) increased from ₹ 6,755 crore to ₹ 7,860 crore.

Bringing Green Revolution to Eastern Region

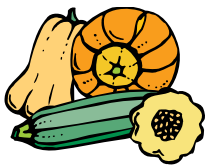
- To improve rice based cropping system in this region, allocation of ₹ 400 crore has been made.

Integrated Development of 60,000 pulses villages in rainfed areas

- Allocation of ₹ 300 crore to promote 60,000 pulses villages in rainfed areas.

Promotion of Oil Palm

- Allocation of ₹ 300 crore to bring 60,000 hectares under oil palm plantations. Initiative to yield about 3 lakh Metric tonnes of palm oil annually in five years.



Initiative on Vegetable Clusters

- Allocation of ₹ 300 crore for implementation of vegetable initiative to provide quality vegetable at competitive prices.

Nutri-cereals

- Allocation of ₹ 300 crore to promote higher production of Bajra, Jowar, Ragi and other millets, which are highly nutritious and have several medicinal properties.

National Mission for Protein Supplement

- Allocation of ₹ 300 crore to promote animal based protein production through livestock development, dairy farming, piggery, goat rearing and fisheries.

Accelerated Fodder Development Programme

- Allocation of ₹ 300 crore for Accelerated Fodder Development Programme to benefit farmers in 25,000 villages.

National Mission for Sustainable Agriculture

- Government to promote organic farming methods, combining modern technology with traditional farming practices.

Agriculture Credit

- Credit flow for farmers raised from ₹ 3,75,000 crore to ₹ 4,75,000 crore in 2011-12.
- Interest subvention proposed to be enhanced from 2 per cent to 3 per cent for providing short-term crop loans to farmers who repay their crop loan on time.
- In view of enhanced target for flow of agriculture credit, capital base of NABARD to be strengthened by ₹ 3,000 crore in phased manner.



- ₹ 10,000 crore to be contributed to NABARD's Short-term Rural Credit fund for 2011-12.

Mega Food Parks

- Approval being given to set up 15 more Mega Food Parks during 2011-12.

Storage Capacity and Cold Chains

- Augmentation of storage capacity through private entrepreneurs and warehousing corporations has been fast tracked.
- Capital investment in creation of modern storage capacity will be eligible for viability gap funding of the Finance Ministry.

Agriculture Produce Marketing Act

- In view of recent episode of inflation, need for State Governments to review and enforce a reformed Agriculture Produce Marketing Act.

Infrastructure and Industry

- Allocation of ₹ 2,14,000 crore for infrastructure in 2011-12. This is an increase of 23.3 per cent over 2010-11. This also amounts to 48.5 per cent of total plan allocation.
- Government to come up with a comprehensive policy for further developing PPP projects.
- IIFCL to achieve cumulative disbursement target of ₹ 20,000 crore by March 31, 2011 and ₹ 25,000 crore by March 31, 2012.
- Under take out financing scheme, seven projects sanctioned with debt of ₹ 1,500 crore. Another ₹ 5,000 crore will be sanctioned during 2011-12.
- To boost infrastructure development, tax free bonds of ₹ 30,000 crore proposed to be issued by Government undertakings during 2011-12.

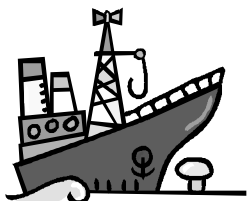
National Manufacturing Policy

- Share of manufacturing in GDP expected to grow from about 16 per cent to 25 per cent over a period of 10 years. Government will come out with a manufacturing policy.
- Two Committees set up for greater transparency and accountability in procurement policy; and for allocation, pricing and utilisation of natural resources.
- Issues relating to reconciliation of environmental concern from various departmental activities including those related to infrastructure and mining to be considered by a Group of Ministers.
- National Mission for hybrid and electric vehicle to be launched.



- Financial Assistance to be made available for metro projects in Delhi, Mumbai, Bengaluru, Kolkata and Chennai.
- Capital investment in fertiliser production proposed to be included as an infrastructure sub-sector.

Exports



- Of 23 suggestions made by Task Force on Transaction Cost, constituted by the Department of Commerce, 21 suggestions already implemented. Action to be taken on the remaining two suggestions. Transaction Cost of ₹ 2,100 crore will thus be mitigated.
- Self assessment to be introduced in Customs to modernize the Customs administration.
- Proposal to introduce scheme for refund of taxes paid on services used for export of goods.
- Mega Cluster Scheme to be extended for leather products. Seven mega leather clusters to be set up during 2011-12.
- Jodhpur to be included for the development of a handicraft mega cluster.



BLACK MONEY

- Five fold strategy to be put into operation to deal with the problem of generation and circulation of black money.
- Membership of various international fora engaged in anti money laundering, Financial integrity and Economic development, Exchange of information for tax purposes and transparency, secured.
- Various Tax Information Exchange Agreements (TIEA) and Double Taxation Avoidance Agreements (DTAA) concluded. Foreign Tax Division of CBDT has been strengthened to effectively handle increase in tax information exchange and transfer pricing issues.
- Enforcement Directorate strengthened three fold to handle increased number of cases registered under amended Money Laundering Legislation.
- Finance Ministry has commissioned study on unaccounted income and wealth held within and outside the country.
- Comprehensive national policy to be announced in near future to strengthen controls over prevention of trafficking on narcotic drugs.

STRENGTHENING INCLUSION

- National Food Security Bill (NFSB) to be introduced in the Parliament during the course of this year.
- Allocation for social sector in 2011-12 (₹ 1,60,887 crore) increased by 17 per cent over current year. It amounts to 36.4 per cent of total plan allocation.

Bharat Nirman



- Allocation for Bharat Nirman programme proposed to be increased by ₹ 10,000 crore from the current year to ₹ 58,000 crore in 2011-12.
- Plan to provide Rural Broadband Connectivity to all 2,50,000 Panchayats in the country in three years.

MGNREGA

- In pursuance of last years budget announcement to provide a real wage of ₹ 100 per day, the Government has decided to index the wage rates notified under the MGNREGA to the Consumer Price Index for Agricultural Labour. The enhanced wage rates have been notified by the Ministry of Rural Development on January 14, 2011.
- From 1st April, 2011, remuneration of Anganwadi workers increased from ₹ 1,500 per month to ₹ 3,000 per month and for Anganwadi helpers from ₹ 750 per month to ₹ 1,500 per month.

Scheduled Castes and Tribal Sub-plan

- Specific allocation earmarked towards Schedule Castes Sub-plan and Tribal Sub-plan in the Budget.
- Allocation for primitive Tribal groups increased from ₹ 185 crore in 2010-11 to ₹ 244 crore in 2011-12.

Education



- Allocation for education increased by 24 per cent over current year.

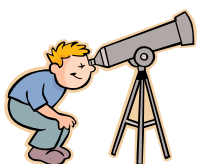
Sarva Shiksha Abhiyan

- ₹ 21,000 crore allocated, which is 40 per cent higher than Budget for 2010-11.
- Pre-matric scholarship scheme to be introduced for needy SC/ST students studying in classes IX and X.

National Knowledge Network

- Connectivity to all 1,500 institutions of Higher Learning and Research through optical fiber backbone to be provided by March, 2012.

Innovations



- National Innovation Council set up to prepare road map for innovations in India.
- Special grant provided to various universities and academic institutions to recognise excellence.



Skill Development

- Additional ₹ 500 crore proposed to be provided for National Skill Development Fund during the next year.
- An international award with prize money of ₹ 1 crore being instituted for promoting values of universal brotherhood as part of National celebrations of 150th Birth Anniversary of Gurudev Rabindranath Tagore.

Health

- Plan allocations for health stepped-up by 20 per cent.
- Scope of Rashtriya Swasthya Bima Yojana to be expanded to widen the coverage.

Financial Inclusion



- Target of providing banking facilities to all 73,000 habitations having a population of over 2,000 to be completed during 2011-2012.

Unorganised sector

- Exit norms under co-contributory pension scheme “Swavalamban” to be relaxed. Benefit of Government contribution to be extended from three to five years for all subscribers who enroll during 2010-11 and 2011-12.
- Eligibility for pension under Indira Gandhi National Old Age Pension Scheme for BPL beneficiaries reduced from 65 years of age to 60 years. Those above 80 years of age will get pension of ₹ 500 per month instead of ₹ 200 at present.

Environment and Climate Change



Forests

- ₹ 200 crore proposed to be allocated for Green India Mission from National Clean Energy Fund.

Environmental Management

- ₹ 200 crore proposed to be allocated for launching Environmental Remediation Programmes from National Clean Energy Fund.

Cleaning of Rivers and Lakes

- Special allocation of ₹ 200 crore proposed to be provided for clean-up of some more important lakes and rivers other than Ganga.

Some Other Initiatives

- To boost development in North Eastern Region and Special Category States, allocation for Special Assistance doubled.
- ₹ 8,000 crore provided in current year for development needs of Jammu and Kashmir.
- Allocation made in 2011-12 to meet the infrastructure needs for Ladakh (₹ 100 crore) and Jammu region (₹ 150 crore).





- Allocation under Backward Regions Grant Fund increased by over 35 per cent.
- Funds allocated under Integrated Action Plan (IAP) for addressing problems related to Left Wing extremism affected districts. 60 selected Tribal and backward districts provided with 100 per cent block grant of ₹ 25 crore and ₹ 30 crore per district during 2010-11 and 2011-12 respectively.
- A lump-sum ex-gratia compensation of ₹ 9 lakh for 100 per cent disability to be granted for personnel of Defence and Para Military forces discharged from service on medical ground on account of disability attributable to government service.
- Provision of ₹ 1,64,415 crore, including ₹ 69,199 crore for capital expenditure to be made for Defence Services in 2011-12.
- To build judicial infrastructure, plan provision for Department of Justice increased by three fold to ₹ 1,000 crore.

Census 2011

- To enumerate castes other than Schedule Castes and Schedule Tribes in Census 2011, 'caste' to be canvassed as a separate time bound exercise.

IMPROVING GOVERNANCE

UID Mission

- From 1st October, 2011 ten lakh *Aadhaar* numbers will be generated per day.

IT Initiatives

- Various IT initiatives taken for efficient tax administration. These include e-filing and e-payment of taxes, adoption of 'Sevottam' concept by CBEC and CBDT, web based facility for tax payers to track the resolution of refunds and credit for pre-paid taxes and augmentation of processing capacity.
- Under Mission mode projects, funds released to 31 projects received from States/UTs for computerisation of Commercial taxes. This will allow States to align with roll out of GST.
- Bill to amend the Indian Stamp Act proposed to be introduced shortly.
- A new scheme with an outlay of ₹ 300 crore to be launched to provide assistance to States to modernise their stamp and registration administration and roll out e-stamping in all the districts in the next three years.
- A new simplified form 'Sugam' to be introduced to reduce the compliance burden of small tax payers falling within presumptive taxation.
- Three more benches of Settlement Commission to be set up to fast track the disposal of cases.
- Steps initiated to reduce litigation and focus attention on high revenue cases.





Corruption

- Group of Ministers constituted to consider measures for tackling corruption. Recommendations to be made in a time bound manner.

Performance Monitoring and Evaluation System

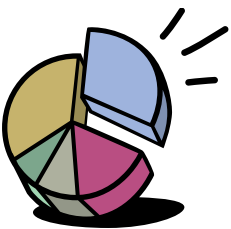
- In pursuance of recommendations of Second Administrative Reforms Commission, 62 departments covered under Performance Monitoring and Evaluation System (PMES) to assess their effectiveness.

TAGUP

- Recommendations of Technology Advisory Group for Unique Projects (TAGUP) submitted and accepted in principle.

BUDGET ESTIMATES 2011-12

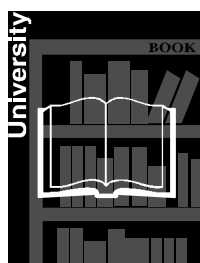
- Gross Tax receipts are estimated at ₹ 9,32,440 crore.
- Non-tax revenue receipts estimated at ₹ 1,25,435 crore.
- Total expenditure proposed at ₹ 12,57,729 crore.
- Increase of 18.3 per cent in total Plan allocation.
- Increase of 10.9 per cent in the Non-plan expenditure.
- XI Plan expenditure more than 100 per cent in nominal terms than envisaged for the Plan period.
- Increase of 23 per cent in Plan and Non-plan transfer to States and UTs.
- Fiscal Deficit brought down from 5.5 per cent in BE 2010-11 to 5.1 per cent of GDP in RE 2010-11.
- Fiscal Deficit kept at 4.6 per cent of GDP for 2011-12.
- Fiscal Deficit to be progressively reduced to 3.5 per cent by 2013-14.
- “Effective Revenue Deficit” estimated at 2.3 per cent of GDP in the Revised Estimates for 2010-11 and 1.8 per cent for 2011-12.
- All subsidy related liabilities brought into fiscal accounting.
- Net market borrowing of the Government through dated securities in 2011-12 would be ₹ 3.43 lakh crore.
- Central Government debt estimated at 44.2 per cent of GDP for 2011-12 as against 52.5 per cent recommended by the 13th Finance Commission.



PART B TAX PROPOSALS

Direct Taxes

- Exemption limit for the general category of individual taxpayers enhanced from ₹ 1,60,000 to ₹ 1,80,000 giving uniform tax relief of ₹ 2,000.
- Exemption limit enhanced and qualifying age reduced for senior citizens.
- Higher exemption limit for Very Senior Citizens, who are 80 years or above.
- Current surcharge of 7.5 per cent on domestic companies proposed to be reduced to 5 per cent.
- Rate of Minimum Alternative Tax proposed to be increased from 18 per cent to 18.5 per cent of book profits.
- Tax incentives extended to attract foreign funds for financing of infrastructure.
- Additional deduction of ₹ 20,000 for investment in long-term infrastructure bonds proposed to be extended for one more year.
- Lower rate of 15 per cent tax on dividends received by an Indian company from its foreign subsidiary.
- Benefit of investment linked deduction extended to businesses engaged in the production of fertilisers.
- Investment linked deduction to businesses developing affordable housing.
- Weighted deduction on payments made to National Laboratories, Universities and Institutes of Technology to be enhanced to 200 per cent.
- System of collection of information from foreign tax jurisdictions to be strengthened.
- A net revenue loss of ₹ 11,500 crore estimated as a result of proposals.



Indirect Taxes

- To stay on course for transition to GST.
- Central Excise Duty to be maintained at standard rate of 10 per cent.
- Reduction in number of exemptions in Central Excise rate structure.
- Nominal Central Excise Duty of 1 per cent imposed on 130 items entering in the tax net.
- Lower rate of Central Excise Duty enhanced from 4 per cent to 5 per cent.
- Optional levy on branded garments or made up proposed to be converted into a mandatory levy at unified rate of 10 per cent.
- Peak rate of Custom Duty held at its current level.



Agriculture and Related Sectors



- Scope of exemptions from Excise Duty enlarged to include equipments needed for storage and warehouse facilities on agricultural produce.
- Basic Custom Duty reduced for specified agricultural machinery from 5 per cent to 2.5 per cent.
- Basic Custom Duty reduced on micro-irrigation equipment from 7.5 per cent to 5 per cent.
- De-oiled rice bran cake to be fully exempted from basic Custom Duty. Export Duty of 10 per cent to be levied on its export.

Manufacturing Sector

- Basic Custom Duty reduced for various items to encourage domestic value addition vis-à-vis imports, to remove duty inversion and anomalies and to provide a level playing field to the domestic industry.
- Rate of Export Duty for all types of iron ore enhanced and unified at 20 per cent ad valorem. Full exemption from Export Duty to iron ore pellets.
- Basic Custom Duty on two critical raw materials of cement industry viz. petcoke and gypsum is proposed to be reduced to 2.5 per cent.
- Cash dispensers fully exempt from basic Customs Duty.

Environment

- Full exemption from basic Customs Duty and a concessional rate of Central Excise Duty extended to batteries imported by manufacturers of electrical vehicles.
- Concessional Excise Duty of 10 per cent to vehicles based on Fuel cell technology.
- Exemption granted from basic custom duty and special CVD to critical parts/assemblies needed for Hybrid vehicles.
- Reduction in Excise Duty on kits used for conversion of fossil fuel vehicles into Hybrid vehicles.
- Excise Duty on LEDs reduced to 5 per cent and special CVD being fully exempted.
- Basic Customs Duty on solar lantern reduced from 10 to 5 per cent.
- Full exemption from basic Customs Duty to Crude Palm Stearin used in manufacture of laundry soap.
- Full exemption from basic Excise Duty granted to enzyme based preparation for pre-tanning.

Infrastructure



- Parallel Excise Duty exemption for domestic suppliers producing capital goods needed for expansion of existing mega or ultra mega power projects.
- Full exemption from basic Customs Duty to bio-asphalt and specified machinery for application in the construction of national highways.

Other Proposals

- Scope of exemptions from basic Customs Duty for work of art and antiquities extended to apply for exhibition or display in private art galleries open to the general public.
- Exemption from Import Duty for spares and capital goods required for ship repair units extended to import by ship owners.
- Concessional basic Custom Duty of 5 per cent and CVD of 5 per cent available to newspaper establishments for high speed printing presses extended to mailroom equipment.
- Jumbo rolls of cinematographic film fully exempted from CVD by providing full exemption from Excise Duty.
- Out right concession to factory-built ambulances from Excise Duty.
- Relief measures proposed for raw pistachio, bamboo for agarbatti, lactose for the manufacture of homoeopathic medicines, sanitary napkins, baby and adult diapers.
- Proposals relating to Customs and Central Excise estimated to result in a net revenue gain of ₹ 7,300 crore.



Service Tax

- Standard rate of Service Tax retained at 10 per cent, while seeking a closer fit between present regime and its GST successor.
- Hotel accommodation in excess of ₹ 1,000 per day and service provided by air conditioned restaurants that have license to serve liquor added as new services for levying Service Tax.
- Tax on all services provided by hospitals with 25 or more beds with facility of central air conditioning.
- Service Tax on air travel both domestic and international raised.
- Services provided by life insurance companies in the area of investment and some more legal services proposed to be brought into tax net.
- All individual and sole proprietor tax payers with a turn over upto ₹ 60 lakh freed from the formalities of audit.
- To encourage voluntary compliance the penal provision for Service Tax are being rationalised. Similar changes being carried out in Central Excise and Custom laws.
- Proposals relating to Service Tax estimated to result in net revenue gain of ₹ 4,000 crore.
- Proposals relating to Direct Taxes estimated to result in a revenue loss of ₹ 11,500 crore and those related to Indirect Taxes estimated to result in net revenue gain of ₹ 11,300 crore.

