Fiscal Developments

02

CHAPTER

The Central Government finances went through considerable degree of consolidation in the last three years, aided by buoyant tax revenues that largely sprang from additional revenue measures and subsidy reduction related to reduced petroleum prices. The quality of spending improved with a gradual tilt towards capital expenditure. The fiscal outcome in 2016-17 was marked by robust growth in tax revenue —stemming largely from excise taxes on petroleum-- and consolidation of non-salary/pension revenue expenditure and of borrowing. The Union Budget for 2017-18 opted for a gradual rather than the sharp consolidation path recommended by the FRBM Review Committee, prudently balancing the requirements of a cyclically weakening economy and the imperative of maintaining credibility, especially in the wake of disruptions to state government finances, reflecting their absorption of the DISCOM liabilities under the UDAY programme. The Centre is watchful about its finances in the first year of GST. State finances now face stresses from potential farm loan waivers. And with public sector enterprises tending to consolidate, public investment growth in 2017-18 may moderate.

2.1 The Union Budget 2016-17 was presented against the background of constrained global demand conditions, yet an improving external current account, flagging inflation and stable domestic macro-economic prospects. The Budget recognized the need to rely on domestic demand to firewall against the global demand slowdown, while maintaining macro-economic stability and adhering to prudent fiscal management. Affected by the twin balance sheet challenges, private investment was sluggish. Specific to the year were the concerns to raise resources to implement the recommendations of the 7th Central Pay Commission and the Defence One-Rank-One-Pension. The higher tax devolution to the States, mandated under the Fourteenth Finance Commission, was to be sustained as well. The fiscal policy for 2016-17 had, thus, to confront a mixed bag of objectives, amidst guarded optimism about the economy.

2.2 This chapter, reviewing the fiscal developments in India with a focus on the year 2016-17, is organized in four sections—Central Government finances, State finances, the General Government, and the Outlook for 2017-18 and beyond.

Central Government Finances

2.3 Despite pressing expenditure concerns and conflicting views about the FRBM roadmap, the Budget for 2016-17 decided to consolidate fiscal, revenue and primary deficits from the levels of the previous year (Table 1). Overall, the fiscal outcome of the Central Government in 2016-17 was marked by strong growth in tax revenue, sustenance of the pace of capital spending and a consolidation of non-salary/pension revenue expenditure. This combination allowed the Government to contain the fiscal deficit from 3.9 percent of GDP in 2015-16 to 3.5 per cent of GDP in 2016-17, despite shortfall in non-tax revenue and non-debt capital receipts relative to its budgeted level. The fiscal consolidation that started in 2012-13 from the unacceptably high levels of 2011-12, continued in 2016-17.

2.4 The most important changes that

Table 1. Central Government's Fiscal Indicators

Indicators	2014-15	2015-16	2016-17BE	2016-17 PA	2017-18 BE
			(₹ in lakh crores)		
Revenue receipts	11.01	11.95	13.77	13.76	15.16
Gross tax revenue	12.45	14.50	16.31	17.17	19.12
Net tax revenue	9.04	9.44	10.54	11.02	12.27
Non-tax revenue	1.98	2.51	3.23	2.74	2.89
Non-debt capital receipts(*)	0.51	0.63	0.67	0.64	0.84
Non-debt receipts	11.53	12.58	14.44	14.40	16.00
Total expenditure	16.64	17.91	19.78	19.75	21.47
Revenue expenditure	14.67	15.38	17.31	16.85	18.37
Capital expenditure	1.97	2.53	2.47	2.90	3.10
Fiscal deficit	5.11	5.33	5.34	5.35	5.47
Revenue deficit	3.66	3.43	3.54	3.08	3.21
Primary deficit	1.08	0.91	0.41	0.55	0.23
Memo Item					
GDP at current prices	124.45	136.82	150.65	151.84	168.47
			(as per cent of GDP)		
Revenue receipts	8.9	8.7	9.1	9.1	9.0
Gross tax revenue	10.0	10.6	10.8	11.3	11.3
Net tax revenue	7.3	6.9	7.0	7.3	7.3
Non-tax revenue	1.6	1.8	2.1	1.8	1.7
Non-debt capital receipts(*)	0.4	0.5	0.4	0.4	0.5
Non-debt receipts	9.3	9.2	9.6	9.5	9.5
Total expenditure	13.4	13.1	13.1	13.0	12.7
Revenue expenditure	11.8	11.2	11.5	11.1	10.9
Capital expenditure	1.6	1.8	1.6	1.9	1.8
Fiscal deficit	4.1	3.9	3.5	3.5	3.2
Revenue deficit	2.9	2.5	2.3	2.0	1.9
Primary deficit	0.9	0.7	0.3	0.4	0.1

Source: **Union Budget Documents and CGA**

PA=Provisional Actual ; BE=Budget Estimates;

*** includes disinvestment proceeds**

occurred in the Central finances during the past three years include:

- Significant improvement in the tax to GDP ratio, aided by efforts at additional resources mobilization (detailed later);
- Gradual tilt in expenditure towards investment spending and consolidation of revenue expenditure that led to the progressive reduction in revenue and fiscal deficits, relative to GDP (Table 1).

2.5 The growth rates of fiscal parameters are presented in Table 2. The steady improvement in non-debt receipts vis-à-vis expenditure is reflected in the table.

A. Revenue generation plans and outcomes

2.6 The non-debt receipts (NDR) of the Central Government consist of its tax revenue net of devolution (net tax revenue), non-tax revenue consisting *inter alia* of receipts from spectrum auction and dividends and profits, and non-debt capital receipts, predominantly the proceeds from disinvestment in public sector enterprises. The Budget 2016-17 targeted a significant growth in non-debt receipts of the Government with improved growth in net tax revenue and robust growth in non-tax revenue that was to be driven by proceeds of spectrum auction, and an optimistic target of disinvestment. The aggregate outcome in NDR more or less conformed to the target, but with its components contributing substantially differently from the corresponding budgeted targets. The growth in tax revenue outstripped the target and compensated for the shortfalls in non-tax revenue and disinvestment proceeds.

2.7 The non-tax revenue fell much short of budgeted targets, mostly on account of the shortfall of proceeds from spectrum auction. Likewise, the non-debt capital receipts were lower than the budgeted figures, because the proceeds from disinvestment (including divestment of strategic holdings and income from management of SUUTI investment) was ₹46,247 crore during the period 2016-17, as opposed to the budget target of ₹56,500 crore and the revised estimate of ₹45,500 crore. Though the disinvestment proceeds trailed behind the budgetary targets, both the absolute amount realized from disinvestment and its ability to finance Central Government expenditure--reached a historic high in 2016-17 (Figure 1). As percentage of total non-debt receipts, it stood at 3.2 per cent, more

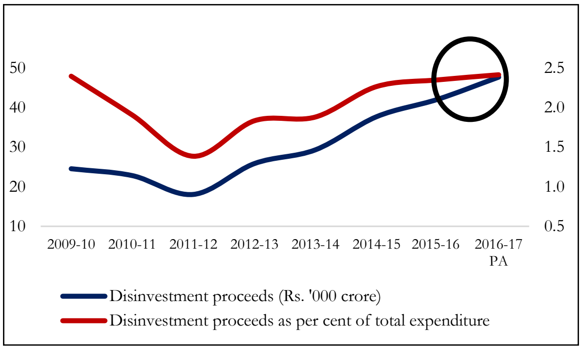
Table 2. Growth Rate of Fiscal Indicators (in per cent)

Indicators	2014-15	2015-16	2016-17 PA	2017-18 BE
Revenue receipts	8.5	8.5	15.2	10.1
Net tax revenue	10.8	4.4	16.8	11.3
Non-tax revenue	-0.5	27.0	9.1	5.3
Non-debt capital receipts (*)	23.0	22.3	0.9	33.0
Non-debt receipts	9.1	9.1	14.5	11.1
Total expenditure	6.7	7.6	10.3	8.7
Revenue expenditure	6.9	4.8	9.5	9.0
Capital expenditure	4.8	28.6	14.7	6.7

Source: **Union Budget Documents and CGA**

PA: Provisional Actual ; BE: Budget Estimates (*) includes disinvestment proceeds

Figure 1. Disinvestment proceeds



Source: **Union Budget**

than a percentage point higher than the corresponding average of previous five years.

2.8 The growth in gross tax revenue in 2016-17 was the highest in the last six years mainly on account of buoyant revenue collection from excise duty. The major tax measures taken during 2016-17 are appended to this Chapter. On the direct tax front, the implementation of the recommendations of the Seventh Pay Commission contributed to collections from personal income tax (Table 3) and, most likely continue to do so in the current fiscal too.

2.9 The efforts of mobilizing additional tax resources (ARM) from excise duty and service tax considerably helped buoyant collections in the last two years (Table 3). Two specific initiatives, i.e., Swachh Bharat Cess, a collection introduced with effect from November 2015 to contribute to Swachh Bharat initiatives, and Krishi Kalyan Cess, introduced with effect from June 2016 to finance improvements in agriculture and farmer's welfare, accounted for more than one-third of the robust growth in service tax collections in 2016-17. Likewise, the growth in excise collections from petroleum products contributed more than two-thirds of the growth in total excise collections. As noted in the Volume I of the Economic Survey, the consumption of petroleum products stood largely unaffected by demonetization because of special payment arrangements for these products during the period of cash crunch. The increase in consumption of petroleum products coupled with efforts at additional resource mobilization explained the 40 per cent increase in excise collections from petroleum products in 2016-17. Reflecting the buoyancy in excise and service tax collections in the last two years, the ratio of

Table 3. Major Tax Revenues of the Centre

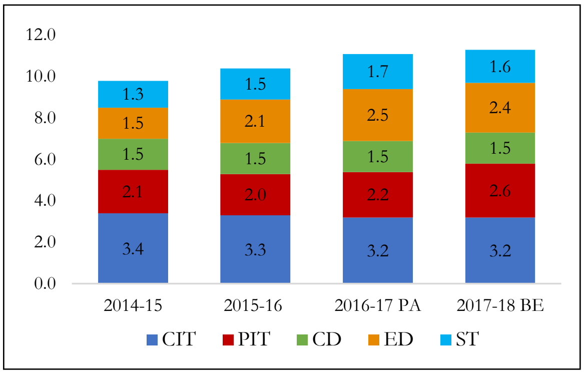
Taxes	2014-15	2015-16	2016-17 PA	2017-18 BE	2014-15	2015-16	2016-17 PA	2017-18 BE
		(₹ in lakh crore)				(growth in per cent)		
Gross tax revenue	12.45	14.50	17.17	19.12	9.8	16.5	18.4	11.3
Corporation tax	4.29	4.53	4.85	5.39	8.7	5.7	7.0	11.1
Personal income tax	2.58	2.80	3.41	4.41	8.6	8.5	21.5	29.6
Customs duty	1.88	2.10	2.26	2.45	9.3	11.9	7.4	8.4
Excise duty	1.90	2.87	3.81	4.07	12.1	51.2	32.7	6.8
Service dax	1.68	2.11	2.55	2.75	8.5	25.9	20.4	8.0

Source: **Union Budget Documents and CGA**

PA=Provisional Actual ; BE=Budget Estimates

indirect taxes to GDP increased significantly (Figure 2).

Figure 2. Taxes as per cent of GDP

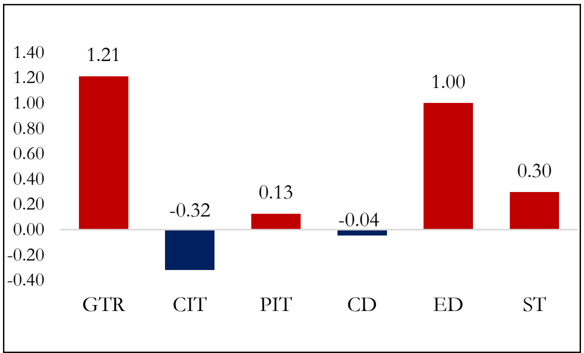


Source: **CGA**

CIT=Corporation tax; PIT=Personal income tax; CD=Custom duty; ED=Excise duty; ST=Service tax

2.10 Most of the fiscal space created by improvement in tax collections during 2013-14 to 2016-17 was on account of excise duties, service tax and personal income tax, in that order of importance (Figure 3). The indirect taxes—excise and custom duties and service tax—together improved by 1.3 percentage points of GDP during the last three years. The tax gain on account of cumulative tax policy changes amounted to more than 0.8 per cent of GDP during the last three years. Going forward, hence, sustaining improvement in tax collections will depend on the revenue buoyancy of GST which will subsume both excise duties and service tax apart from other cesses and taxes (details in Box 1). On the contrary, the corporate tax collection has declined by 0.3 percentage point, perhaps on account for current balance sheet stress in companies across the board.

Figure 3. Change during 2013-14 to 2016-17 in tax collections as per cent of GDP



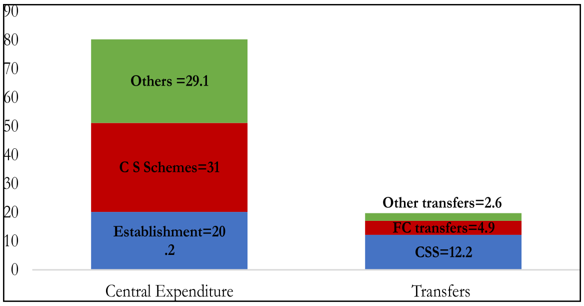
Source: **CGA**

GTR=Gross tax revenue; CIT=Corporation tax; PIT=Personal income tax; CD=Custom duty; ED=Excise duty; ST=Service tax

B. Expenditure trends

2.11 The aggregate budgetary expenditure of the Central Government can be broadly divided into Central Government expenditure and transfers. In 2016-17 (RE), the Central Government expenditure accounted for 80.3 per cent of the total budgetary expenditure and the remaining 19.7 per cent were transfers (Figure 4).

Figure 4. Aggregate shares in budgetary expenditure in 2016-17 RE (per cent)



Source: **Union Budget 2017-18**

RE=Revised Estimates

C S schemes=Central Sector Schemes; FC transfers= Finance Commission transfers;

CSS=Centrally Sponsored Scheme

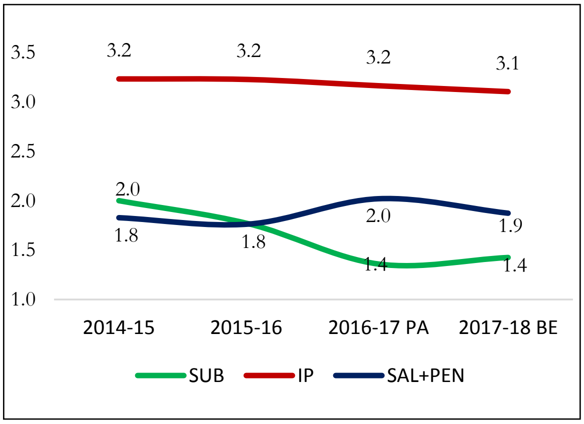
2.12 Faced with the liabilities of the 7th Pay Commission on the revenue expenditure front and constrained by FRBM commitments, the Budget 2016-17 targeted modest capital spending (Table 1). However, the additional tax resources generated the room for sustaining capital expenditure and in implementing recommendations of the Seventh Pay Commission on salaries and pensions, without an expansionary borrowing programme.

2.13 Two important factors drove the growth of revenue expenditure in 2016-17. The first was the increase in expenses on salaries and pensions in the last year that largely reflected the increase in the incomes of employees and pensioners during the year on account of the Pay Commission. Stripped of the spending on salaries and pensions, the growth in revenue expenditure was much lower in 2016-17 (Tables 4 & 5 and Figure 5).

2.14 Major subsidies, including those on food, petroleum and fertilizers, as percentage of the GDP has been consistently declining from 2012-13 (Figure 5). This happened despite the food subsidy remaining high following the implementation of the National Food Security Act.

2.15 The second reason for the increase in revenue expenditure in 2016-17 is the increase of 26.4 per cent in the grants for creation of capital assets (GCCA). All grants given to the State Governments and Union Territories are treated as revenue expenditure, but a part of

Figure 5. Major items of revenue expenditure as % of GDP



Source: **CGA**

PA=Provisional Actual ; BE=Budget Estimates

IP=Interest payment; SUB=major subsidies; SAL=Pay & allowances; PEN=Pensions

these grants are used for creation of capital assets. The investment push that the Central Government expenditure provides to the economy can be approximated by subtracting GCCA from revenue expenditure and adding it to the capital expenditure. This adjustment

Table 4. Major Items of Revenue Expenditure (₹ in lakh crore)

Items	2014-15	2015-16	2016-17 PA	2017-18 BE
Interest payments	4.0	4.4	4.8	5.2
Major subsidies	2.5	2.4	2.1	2.4
Pensions	0.9	1.0	1.3	1.3
Salaries	1.3	1.4	1.8	1.8

Source: **Union Budget Documents and CGA**

PA=Provisional Actual ; BE=Budget Estimates

Table 5. Growth in major components of revenue expenditure (in per cent)

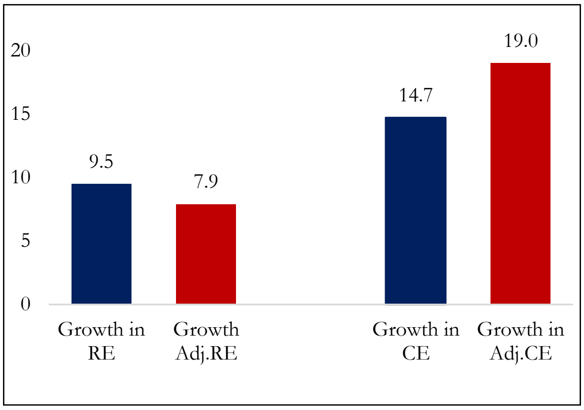
	2015-16	2016-17 BE	2016-17 PA
Revenue expenditure	4.8	12.6	9.5
Interest payments	9.7	11.5	8.8
Major subsidies	-2.9	-4.2	-14.6
Pensions	3.4	27.5	33.4
Salaries & allowances	7.9	27.2	23.1
NSP-RE	4.6	9.8	6.3

Source: **Union Budget and CGA**

NSP-RE=Non-salary/non-Pensions Revenue Expenditure

increases the growth in capital expenditures in the year significantly (Figure 6).

Figure 6. Growth in revenue expenditure (RE) and capital expenditure (CE) in 2016-17 (per cent)

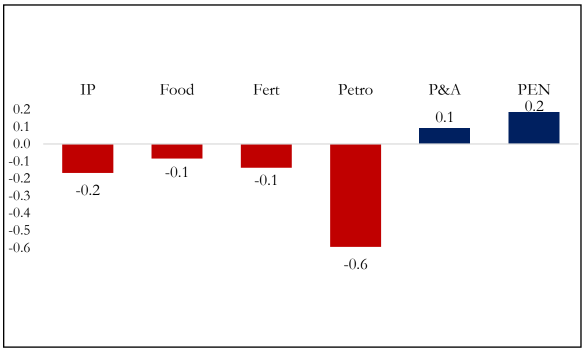


Source: **CGA**

Adj.=Adjusted

2.16 During 2013-14 to 2016-17, the total budgetary expenditure of the Central Government declined by 0.9 percentage points of the GDP–revenue expenditure by 1.1 percentage points, while capital expenditure increased by 0.1 percentage point. The recent expenditure trends show improved expenditure quality, with the gradual tilt towards capital expenditure (Tables 1&2). Figure 7 shows that more than half of the

Figure 7. Changes from 2013-14 to 2016-17 in selected components of revenue expenditure as per cent of GDP



Source: **Union Budget**

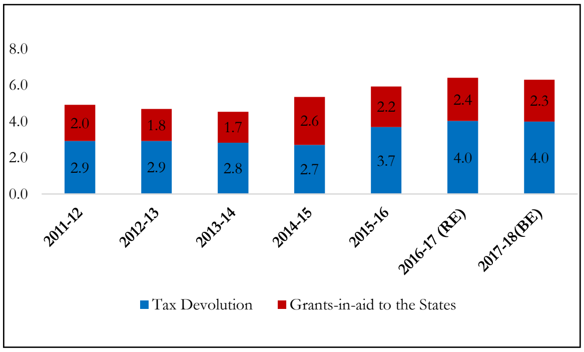
IP=Interest payment; Food=Food subsidy; Fert=Fertiliser subsidy; Petro=Petroleum subsidy; P&A=Pay & allowances; PEN=Pensions

fiscal space created by the compression of revenue expenditure owes to the reduction in petroleum subsidy. This represents a confluence of decline in international crude prices, decontrol of prices and avoidance of leakages through direct benefit transfer of subsidies.

C. Devolution

2.17 The devolution from the Centre to the States consists of tax devolution and grants. Till 2013-14, the funds for centrally sponsored schemes (CSS) were routed through two channels—the Consolidated Funds of the States and directly to the State implementing agencies. In 2014-15, direct transfers to State implementing agencies was discontinued and all transfers to States including for the CSS were started to be routed through the Consolidated Funds of the States (Table 6). Hence, the spike in total devolution to the States seen in 2014-15 (Figure 8) was largely the result of the shift in the pattern of devolution.

Figure 8. Transfers to States as percentage of GDP



Source: **Department of Expenditure, Ministry of Finance**

RE=Revised Estimates ; BE=Budget Estimates

2.18 Tax devolution to the States increased by 1 percentage point of GDP in 2015-16, following the implementation of the recommendation of the Fourteenth Finance Commission to devolve 42 per cent of the divisible pool of taxes to the States, up

Table 6. Central Transfers to States (₹ in lakh crore)

	2014-15	2015-16	2016-17 (RE)	2017-18(BE)
Tax devolution	3.38	5.06	6.08	6.75
Grants-in-aid	3.30	3.06	3.59	3.88
Total	6.68	8.12	9.67	10.63

Source: **Department of Expenditure, Ministry of Finance**
RE=Revised Estimates ; BE=Budget Estimates

from 32 per cent thereto. The total transfers to States also increased, but by a lesser proportion—by 0.5 percentage points of the GDP—because the increase in untied tax devolution was also associated with some reduction in tied transfers (Figure 8). The tax devolution as percentage of GDP increased in 2016-17 (Figure 8) reflecting the corresponding change in gross tax revenue of the Centre, relative to the GDP (Table 1).

D. Central Government Debt

2.19 With steady fiscal consolidation, the ratio of Central Government liabilities to GDP has been declining, but for a marginal increase in 2015-16 (Table 7). In the last 14 years, there are only two years when the Central liabilities grew faster than nominal GDP—2011-12 and 2015-16. Of this, the first was a year of unusual fiscal expansion—the fiscal deficit as percentage of GDP climbing by 1.1 percentage points from the previous year. In 2015-16, the Government reduced fiscal deficit from the previous year. Yet, the growth in liabilities at 10.6 per cent outstripped the nominal GDP growth of 9.9 per cent, because the latter was dragged down by almost a percentage point from the previous year, because of the steep decline in inflation (Figure 9). The trend got reversed conspicuously in 2016-17.

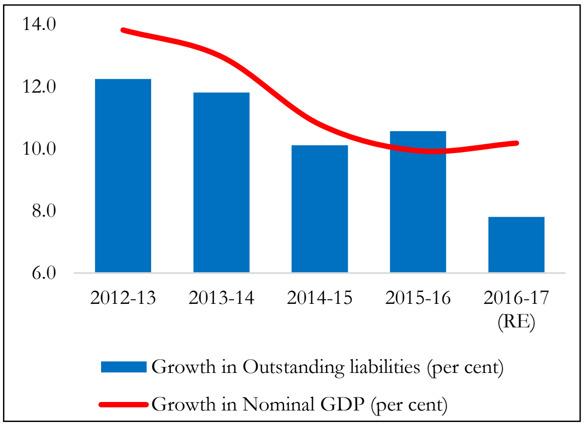
2.20 The other distinct trends on the debt front are the increasing reliance on fixed interest rate market borrowings and the declining importance of external borrowings on the debt portfolio of the Government of India. The steady decline in external debt as percentage of the GDP (Table 7) also indicates lower currency risk of India's debt

Table 7. Outstanding liabilities of the Central Government as per cent of GDP

(As per cent of GDP)	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17 RE	2017-18 BE
Internal liabilities	49.8	49.2	48.8	48.6	48.9	47.9	45.8
Internal debt	37.0	37.9	37.8	38.1	38.8	38.0	36.7
Market borrowings	28.8	30.0	30.6	31.3	31.4	30.8	29.7
Others	8.2	7.8	7.1	6.8	7.4	7.2	7.0
Other internal liabilities	12.8	11.4	11.1	10.5	10.1	9.8	9.2
External debt (outstanding)*	1.9	1.8	1.6	1.6	1.5	1.5	1.4
Total outstanding liabilities	51.7	51.0	50.5	50.2	50.4	49.4	47.3

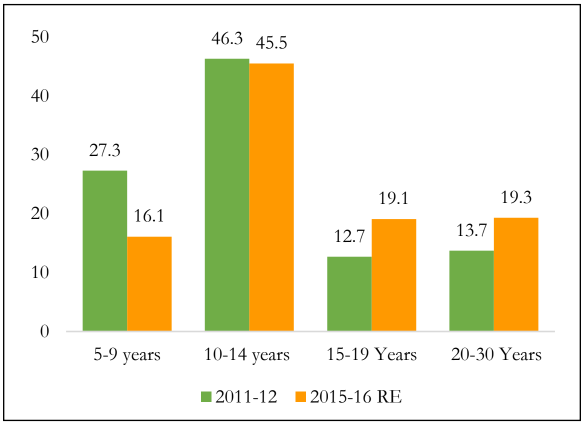
Source: **Union Budget**
*** external debt is expressed in historical exchange rates**

Figure 9. GDP growth and growth in the Outstanding liabilities of the Centre



Source: **Union Budget**

Figure 10. Maturity Profile of Central Government Dated Securities issued in 2011-12 and 2015-16 (as % of Total)



Source: **Status Paper on Debt, Ministry of Finance**

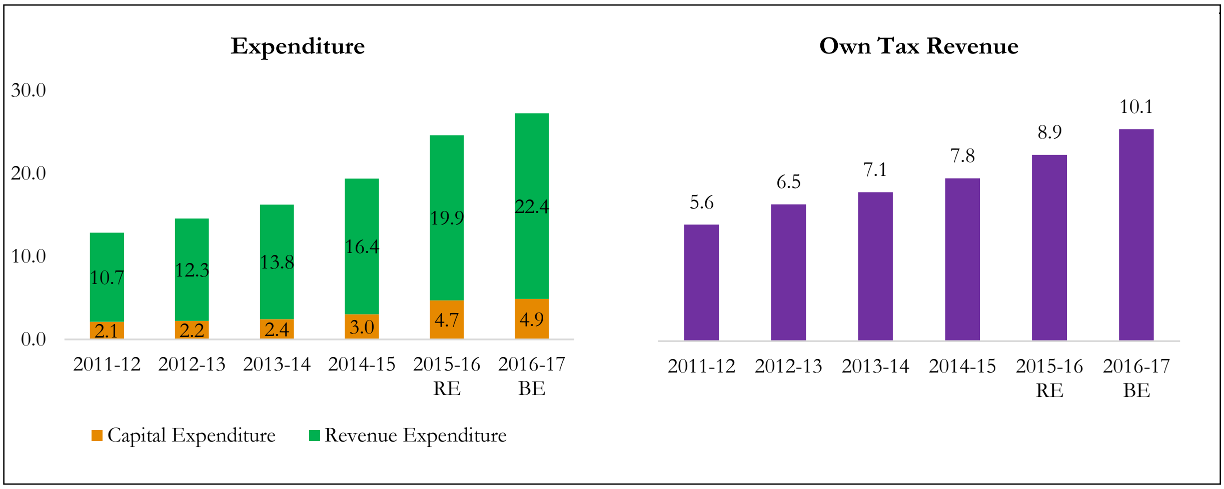
stock and waning impact of Government's borrowing programme on the balance of payments situation. The Central Government does not borrow directly from international capital markets; more than two-thirds of its external debt stock is from multilateral institutions, largely on concessional terms.

2.21 The gradual elongation of the maturity profile of the Government's debt (Figure 10) has reduced the rollover risk. The weighted residual average maturity of outstanding dated securities of the Government of India increased from 9.7 years at end-March 2010 to 10.5 years at end-March 2016.

State Finances

2.22 The State budgets expanded considerably in 2015-16, both on account of increase in current and capital spending (Figures 11 A & B and Table 8). Capital expenditure consists of capital outlay and loans and advances by the State Governments. The loans and advances increased sharply in 2015-16. The capital expenditure of the States (combined) increased by 56.1 per cent in 2015-16, but net of UDAY, this growth was only about 23 per cent.

Figures 11 A & B. Fiscal indicators of States (combined) (₹ in lakh crore)



Source: **State Finances: A Study of Budgets, RBI**

RE=Revised Estimates ; BE=Budget Estimates

Table 8. Fiscal indicators of States (combined) as per cent of GDP

	2012-13	2013-14	2014-15	2015-16 RE	2016-17 BE
Own tax revenue	6.6	6.3	6.3	6.6	6.7
Own non tax revenue	1.2	1.2	1.2	1.2	1.3
Capital expenditure*	2.2	2.2	2.4	3.5	3.2
Revenue expenditure	12.4	12.3	13.2	14.7	14.8
Total expenditure	14.6	14.5	15.6	18.1	18.1

Source: **State Finances: A Study of Budgets, RBI**

RE=Revised Estimates ; BE=Budget Estimates

*** Capital expenditure does not include repayment of internal debt/loans to Centre, which are included in Capital disbursements**

2.23 The UDAY-related borrowings raised by the State Governments have been exempted from the fiscal deficit targets during 2015-16 and 2016-17. While this could be the case with individual States, it would be important to understand the combined fiscal deficit of all States including the UDAY liabilities, as these liabilities add to the debt of the States.

2.24 The RBI Study on State Finances points to the worsening of the fiscal deficit to GDP ratio on account of the increase in capital outlay and loans and advances to power projects-around ₹98960 crore was borrowed under UDAY by eight states during 2015-16. Net of UDAY bonds, consolidated state fiscal deficit moderates by 0.7 percentage point to 2.9 per cent (Figure 12). Thus with UDAY, as per the available information, the combined fiscal deficit of States crossed the FRBM benchmark of 3.0 per cent. Based on information on 25

Figure 12. Fiscal Deficit of States as per cent of GDP

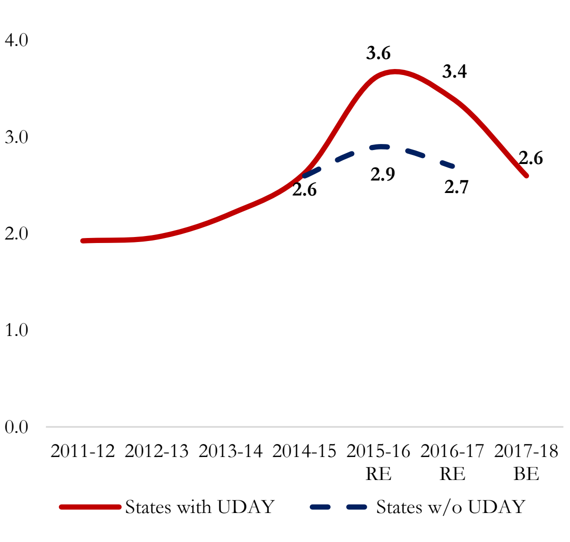
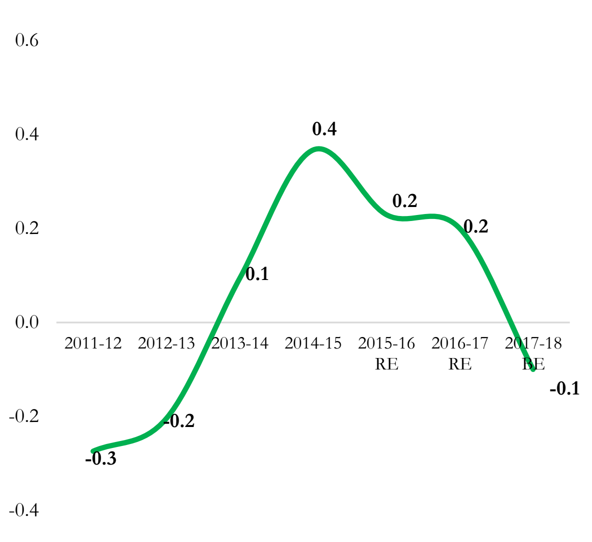


Figure 13. Revenue Deficit of States as per cent of GDP



Source: **State Finances: A Study of Budgets, RBI**

RE=Revised Estimates; BE=Budget Estimates; " - " indicates surplus

Note: **The numbers for 2016-17 RE and 2017-18 BE are based on data available for 25 states**

States, the combined fiscal deficit of States in 2016-17 (RE) would be 3.4 per cent after including the UDAY liabilities while it would be 2.7 per cent without the UDAY liabilities (Figure 12). As per information from the RBI, in 2015-16, eight States (Uttar Pradesh, Rajasthan, Chhattisgarh, Punjab, Jammu & Kashmir, Bihar, Jharkhand, Haryana) borrowed under UDAY, while in 2016-17, thirteen States (Uttar Pradesh, Maharashtra, Haryana, Punjab, Rajasthan, Bihar, Jammu & Kashmir, Andhra Pradesh, Tamil Nadu, Himachal Pradesh, Telangana, Madhya Pradesh, Meghalaya) borrowed under UDAY.

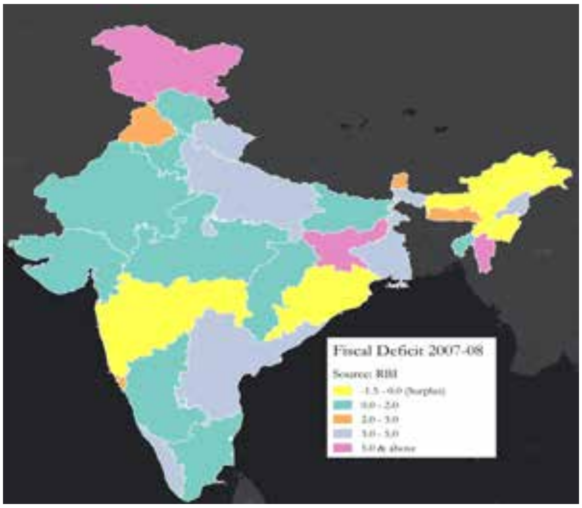
2.25 Figures 14 and 15 present two snapshots of the fiscal deficits of the State—2007-08 when the combined fiscal deficit to GDP ratio reached its lowest since the FRBM and 2015-16 when the ratio became the highest. Five States ran fiscal surpluses in 2007-08 and none in 2015-16.

2.26 There was an uptick in State fiscal deficit during 2013-14 and 2014-15 without any worsening of the combined debt position of the States, relative to the GDP (Figures 12 & 16). However, in 2015-16, the liabilities to GDP ratio of States steeply increased owing to the combined effect of a considerable increase in deficits and the reduction in nominal GDP growth (Table 9).

General Government

2.27 From 2011-12 to 2014-15, the outstanding liabilities of the Central and state governments, relative to the GDP, declined steadily (Table 10). With the State Government's position of deficit and outstanding liabilities worsening in 2015-

Figure 14. Distribution of States according to Fiscal deficit / GDP ratio: 2007-08



Source: **State Finances: A Study of Budgets, RBI**

Figure 15. Distribution of States according to Fiscal deficit/GDP ratio: 2015-16 (RE)

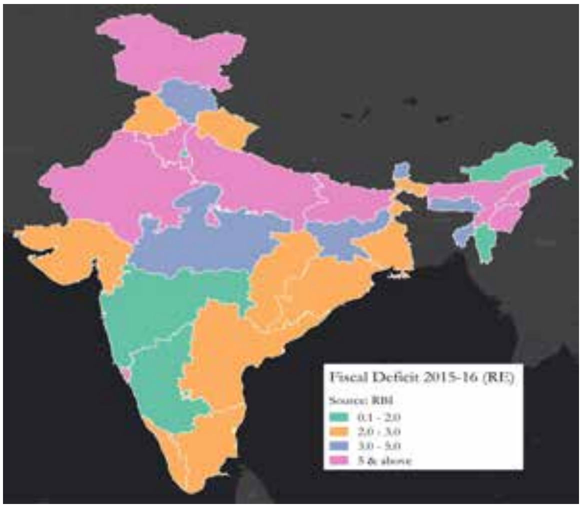
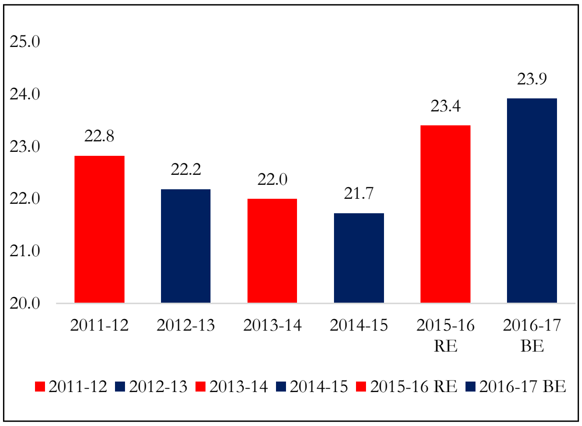


Table 9. Outstanding Liabilities of the State

	2012-13	2013-14	2014-15	2015-16 RE#	2016-17 BE#
Liabilities of States (₹ in lakh crore)	22.1	24.7	27.0	31.7	36.0
Liabilities of States (% growth)	10.6	12.0	9.4	17.4	13.5

Source: **State Finances: A Study of Budgets, RBI**
RE=Revised Estimates; BE=Budget Estimates
 # with UDAY

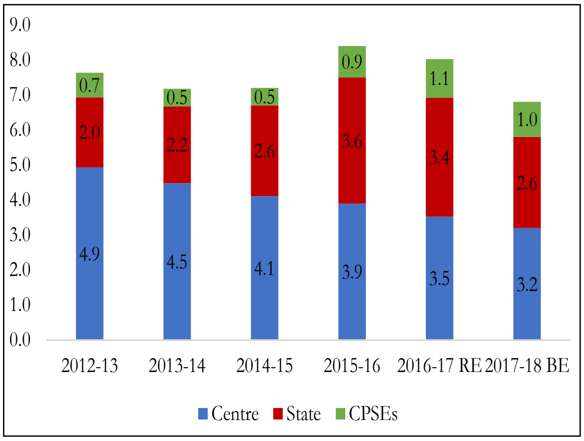
Figure 16. Outstanding Liabilities of the State (as per cent of GDP)



Source: **State Finances: A Study of Budgets, RBI**
RE=Revised Estimates; BE=Budget Estimates
 # with UDAY

16, the total borrowings by the General Government and the debt position of the Centre and States combined also deteriorated (Figure 17 & Table 10). The indications from the budgeted levels of borrowings of States as per cent of GDP in 2017-18 were that they are consolidating (Figure 17). Given the recent trends in fiscal deficits of the Centre and the clear consolidation roadmap laid out by it in the Medium Term Fiscal Policy Statement 2017-18 (Figure 19), it seems that the General government is consolidating further.

Figure 17. Borrowings by the Centre, States (with Uday) and CPSEs (per cent of GDP)



Source: **Union Budget and State Budgets**

RE=revised estimates; BE=Budget estimates; CPSEs: Central Public Sector Enterprises

Note: **2016-17 RE and 2017-18 BE numbers are as per information available for 16 states constituting about 79 per cent of GDP**

2.28 Public investment—approximated by investment by Centre, States plus CPSEs—improved on the back of accelerated efforts by CPSEs in 2016-17 (Figure 18). The national accounts show that the fixed investment rate in the economy declined from 29.3 per cent in 2015-16 to 27.1 per cent in 2016-17. The Survey calculations show that, but for the improved public investment, the decline in the fixed investment rate would have been steeper (Figure 6 in Chapter 1). The differential trend in the investment spending of the General Government (including CPSEs) between the period 2015-16 to 2016-17 and the period 2016-17 to 2017-18 may be perused from Figure 18.

Table 10. Outstanding Liabilities of the Centre and States as per cent of GDP

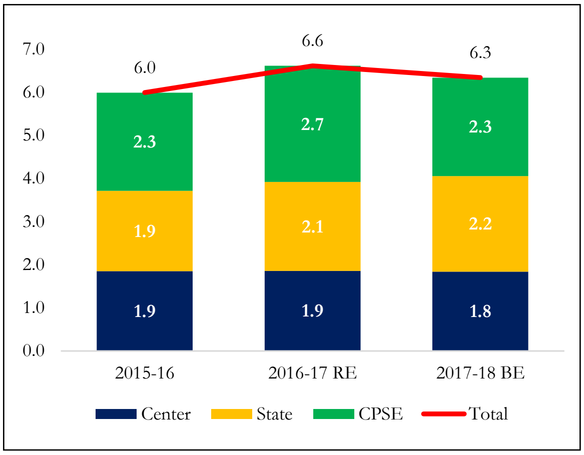
Year	Liabilities of the Centre	Liabilities of the States	Combined liabilities of the Centre & States
2009-10	56.3	25.5	70.6
2010-11	52.2	23.5	65.6
2011-12	53.5	22.8	67.4
2012-13	52.5	22.2	66.6
2013-14	52.2	22.0	67.1
2014-15	51.5	21.7	66.9
2015-16RE	52.3	23.4	69.3
2016-17BE	50.7	23.9	68.6

Source: **Reserve Bank of India and Survey calculations based on State Finances: A Study of Budgets, RBI**

RE=revised estimates; BE=Budget estimates

Note: **The figures of the outstanding liabilities of the Centre as percent of GDP presented in Table 10 do not match with those in Table 7, because external debt is assessed in historical exchange rates in Table 7, whereas the same is assed in current exchange rate in this table.**

Figure 18. Capital spending by Centre, States and CPSEs (per cent of GDP)



Source: **Union Budget and State Budgets**

Note: **2016-17 RE and 2017-18 BE numbers are as per information available for 16 states constituting about 79 per cent of GDP**

FRBM Review Committee

2.29 Taking stock of the experience of the FRBM era, the Budget 2016-17 had acknowledged that there are different strands of thought on fiscal responsibility roadmap—fixed deficit targets versus range-based targets, fiscal expansion and contraction that respond to credit and economic cycles, etc. These issues were left to be analyzed by an FRBM Review Committee.

2.30 The Government constituted a five-member FRBM Review Committee in May 2016 with Shri N K Singh as Chairman. The members of the Committee were: Shri Sumit Bose, Dr. Urjit Patel, Dr. Rathin Roy and Dr. Arvind Subramanian. The Committee submitted their Report to the Government in January 2017. The Government has still not taken a view on any of these recommendations.

Fiscal Policy for 2017-18 and Beyond

2.31 The Union Budget for 2017-18 introduced a number of procedural reforms. First, discontinuing the practice since 1924, the Railway Budget was integrated with the Union Budget, bringing railway finances to the mainstream. Second, the date of the Union Budget was advanced to February 1, almost by a month, to help ministries and State governments plan and spend their full budget from the beginning of the financial year, whereas previously they had to wait till well into the financial year (typically end-May) for the Budget to secure legislative passage. Third, the classification of expenditure into 'plan' and 'non-plan' was eliminated to allow focus on the more economically meaningful capital-revenue distinction. Fourth, the Medium Term Expenditure Framework Statement was restructured to give projected expenditures (revenue and capital) for each demand for the next two financial years.

2.32 Overshadowing these otherwise significant fiscal policy initiatives is the introduction of the Goods and Services Tax with effect from the 1st day of July 2017, encompassing a plethora of the Central and State level indirect taxes, paving the way for a dramatic transformation of the Indian markets and the economy (Box 1).

2.33 The budget for 2017-18 opted for a gradual consolidation. Thus, the fiscal deficit is expected to decline to 3.2 percent of GDP in 2017-18 compared with the outcome of 3.5 percent of GDP in 2016-17 (Table 11). The consolidation path adopted by the Central Government prudently balanced competing objectives. On the one hand, there were the requirements of a cyclically weakening economy, afflicted by the Twin Balance Sheet and manifested in declining investment and credit growth, arguing for counter-cyclical policy. And, on the other, the imperatives of maintaining credibility, especially in the wake of potential disruptions to state government

Table 11. Major Fiscal Indicators for 2017-18

Items	Per cent of GDP		Growth rate (per cent)	
	2016-17 PA	2017-18 BE	2016-17 PA	2017-18 BE
Revenue receipts	9.1	9.0	15.2	10.1
Gross tax tevenue	11.3	11.3	18.0	11.3
Direct taxes	5.4	5.8	11.4	18.7
Indirect taxes	5.7	5.5	21.4	7.6
Net tax revenue	7.3	7.3	16.8	11.3
Non-tax revenue	1.8	1.7	9.1	5.3
Non-debt capital receipts	0.4	0.5	0.9	33.0
Non debt receipts	9.5	9.5	14.5	11.1
Total expenditure	13.0	12.7	10.3	8.7
Revenue expenditure	11.1	10.9	9.5	9.0
Capital expenditure	1.9	1.8	14.7	6.7
Memo Items				
Fiscal deficit	3.5	3.2		
Revenue deficit	2.0	1.9		
Primary deficit	0.4	0.1		

Source: **Union Budget**
PA=Provisional Actual ; BE=Budget Estimates

Box 1. Historic Tax Reform: The Goods and Services Tax (GST)

The launch of the GST represents an historic economic and political achievement, unprecedented in Indian tax and economic reforms, summarized in Table 2. Here we clarify some misconceptions and highlight some of the relatively unnoticed benefits while pointing to the way ahead.

Table 1. Taxes subsumed under GST

Central Taxes	State Taxes
• Central Excise Duty • Duties of excise (medicinal and toilet preparations) • Additional Duties of excise (goods of special importance & textile and textile products) • Additional Duties of customs • Special Additional Duty of Customs • Service tax • Cesses and surcharges related to supply of goods or services	• State VAT • Central sales tax • Purchase tax • Luxury tax • Entry tax (all forms) • Entertainment tax (not levied by the local bodies) • Taxes on advertisements • Taxes on lotteries, betting and gambling • State cesses and surcharges

While subsuming State level taxes, the Central government has guaranteed all state governments 14 per cent annual growth in revenues for the next five years, a compensation that will be financed by cesses on demerit goods (tobacco, luxury cars, aerated beverages, etc). Here we clarify some misconceptions and highlight some of the relatively unnoticed benefits while pointing to the way ahead.

Table 2. Key Benefits of the GST

1.	Furthering cooperative federalism	• Nearly all domestic indirect tax decisions to be taken jointly by Centre and states
2.	Reducing corruption and leakage	• Self-policing: invoice matching to claim input tax credit will deter non-compliance and foster compliance. Previously invoice matching existed only for intra-state VAT transactions and not for excise and service taxes nor for imports
3.	Simplifying complex tax structure and unifying tax rates across the country	• 8-11 central excise duty rates times 3-5 State VAT rates itself applied differentially across states to be consolidated into the GST's 6 rates, applied uniformly across states (one good, one Indian tax)
		• Other taxes and cesses of the states and the Centre subsumed in the GST
4.	Creating a common market	• Will eliminate most physical restrictions and taxes on inter-state trade
5.	Furthering 'Make in India' by eliminating bias in favour of imports ("negative protection")	• Will make more effective and less leaky the domestic tax levied on imports (IGST, previously the sum of the countervailing duty and special additional duty), which will make domestic goods more competitive
6.	Eliminating tax bias against manufacturing/ reducing consumer tax burden	• By rectifying breaks in the supply chain and allowing easier flow of input tax credits, GST will substantially eliminate cascading (paying taxes at each stage on value added and taxes at all previous stages, such as with the Central Sales Tax)
7.	Boosting revenues, investment, and medium-term economic growth	• Investment will be stimulated, because scope of input tax credit for capital purchases will increase
		• Tax base will expand through better compliance
		• Embedded taxes in exports will be neutralized

1. Increased complexity of tax structure?

Much of the commentary has suggested that the GST has a complicated tax structure, implicitly comparing the new system with an ideal GST tax structure while implying that the comparison is with the past. It is inaccurate to suggest that the GST is more complicated than the system it replaced, for two related reasons.

Previously, every good faced an excise tax levied by the Centre and a state VAT. There were at least 8-10 rates of excises and 3-4 rates of state VATs, the latter potentially different across states. So, a structure of multiple rates (as much as 10 times 4 times 29 states) has been reduced to a structure of 6 rates.

More important, uniformity or the principle of "one good, one tax" all over India is now a reality. Previously, different states could impose different taxes on any given product and these could be different from that levied by the Centre.

So, relative to the past, there is now uniformity rather than multiplicity as well as considerably less complexity.

2. Additional compliance burden?

Goods

It is true that there will be additional documentation requirements on all those who are now part of the GST net. But the filing requirements will comprise filling one set of forms per month (not three as has been alleged because filling the first automatically fills the two others). This will not be an additional burden because similar, sometimes more onerous, requirements existed under the previous state VAT and central excise regimes (Table 3). For example, as the Table below shows, under the pre-GST regime, three separate returns to three different authorities had to be filed in respect of the three major taxes that are now subsumed under the GST.

Services

Previously, since only the Centre imposed the service tax, agents had to register with, and hence file to, only one authority. Now, agents will have to register in all states that they operate in and file in each of them. In the discussions in the GST Council, attempts were made to preserve the previous, simpler system, but states were nearly unanimous in insisting for multiple registration as a way to ensure that they receive their due share of revenues. That said, the increased compliance requirements will be faced only by a small number of agents with a pan-India presence and whose ability to comply will be commensurately greater. Going forward, there is scope for more centralized procedures to minimize the compliance burden.

Table 3. Number and Frequency of returns to be filed: before and after GST

Before GST		*GST structure*
State VAT	1 per month plus 1 annual	1 per month plus 1 annual
Service Tax	2 per year plus 1 annual	
Central Excise	1 per month plus 1 annual	

Small Traders

Much has been made of the additional compliance burden on small traders and agents. This overlooks some important changes in the other direction. The GST has significantly raised turnover thresholds for inclusion in the tax net, as Table 4 shows. As a result, out of about 87 lakh agents that were previously in the tax net (states VAT, central excise and service tax) about 70 lakhs remain in the GST net. A significant number of small traders with turnover less than ₹ 20 lakhs may have opted out. Moreover, even though the new threshold is ₹ 20 lakhs, agents with a turnover of up to ₹ 75 lakhs can choose to pay a small tax on their turnover (not valued added), which they can file every quarter instead of every month with fewer documents having to be submitted.

On the concerns about the anti-profiteering provisions might lead to over-zealous administration, the Government has indicated that they will be sparingly used. In any case, a sunset clause was introduced to ensure that the provisions will expire no later than two years.

Table 4. Turnover threshold for inclusion in the tax net: before and after GST

Before GST		*GST structure*
State VAT	₹ 5-10 lakhs	• Minimum ₹ 20 lakhs
Service Tax	₹ 10 lakhs	• ₹ 20-75 lakhs subject to lower compliance burden
Central Excise	₹ 1.5 crores	

3. Hidden benefits

One important hidden benefit of the GST is that the textile and clothing sector is now fully part of the tax net. Previously, some parts of the value chain, especially fabrics, were outside the tax net, leading to informalisation and evasion. Some anomalies favoring imports of fabrics over domestic production will need to be rectified but overall the tax base has expanded.

Similarly, one segment of land and real estate transactions has been brought into the tax net: "works contracts", referring to housing that is being built. This in turn would allow for greater transparency and formalization of cement, steel, and other sales, which tended to be outside the tax net. The formalization will occur because builders will need documentation of these input purchases to claim tax credit.

Third, the GST will rectify the inadequacies of the previous system of domestic taxes levied on imports—the countervailing duty to offset the excise tax and the Special Additional Duty (SAD) to offset the state VAT. For example, the SAD was levied at 4 percent, even though the standard VAT was 12.5 percent in most states; while in principle firms that paid VAT on inputs could reclaim the tax, in practice there were difficulties getting the tax credits. Under the GST, the full taxes on domestic sales levied by the Centre and the states (the IGST) will be levied when imported goods first arrive into the country with full tax credits available down the chain to a greater extent than previously. This will lead to more transparent and more effective taxation of imports.

There are early signs of tax base expansion. Between June & July 2017, 6.6 lakh new agents previously outside the tax net have sought GST registration. This is expected to rise consistently as the incentives for formalization increase. Preliminary estimates point to potentially large increases in the tax base as a consequence.

Another benefit will be the impact of GST and the information it throws up on direct tax collections. This could be substantial. In the past, the Centre had little data on small manufacturers and consumption (because the excise was imposed at the manufacturing stage), while states had little data on the activities of local firms outside their borders. Under the GST, there will be seamless flow and availability of a common set of data to both the Centre and states, making direct tax collections more effective.

The longer-term benefits include the GST's impact on financial inclusion. Small businesses can build up a real time track record of tax payments digitally, and this can be used by lending institutions for credit rating and lending purposes. Currently, small businesses are credit-constrained because they cannot credibly demonstrate their financial capability.

Finally, even within the first few days of the GST's launch there are reports of elimination of inter-state check-posts. So far, 24 states have abolished these check-posts while others are in the process of eliminating them. If this trend continues, the reduction in transport costs, fuel use, and corruption could be significant.

There is ample evidence to suggest that logistical costs within India are high. For example, one study suggests that trucks in India drive just one-third of the daily distance of trucks in the US (280 km vs

800 km). This raises direct costs (especially in terms of time to delivery), indirect costs (firms keeping larger inventory), and location choices (locating closer to suppliers/customers instead of the best place to produce). Further, only about 40 per cent of total travel time is spent driving; while one quarter is taken up by check points and other official stoppages. Eliminating check point delays could keep trucks moving almost 6 hours more per day, equivalent to additional 164 kms per day – pulling India above global average and to the level of Brazil.

Overall, logistics costs (broadly defined, and including firms' estimates of lost sales) are 3-4 times the international benchmarks. Studies show that inter-state trade costs exceed intra-state trade costs by a factor of 7-16, thus pointing to clear existence of border barriers to inter-state movement of goods[1]. The passage of the GST will dramatically reduce these costs and give a boost to inter-state trade in the country.

4. Challenges ahead

Table 5 shows the structure of GST taxes and sectors that are outside the GST net. The rate structure and the exclusions from the base shown in Table 5 have scope for improvement. Alcohol, petroleum and energy products, electricity, and some of land and real estate transactions are outside the GST base but are taxed by the Centre and/or states outside the GST. Health, and education are outside the tax net altogether, exempted under the GST and not otherwise taxed by the Centre and states.

Keeping electricity out undermines the competitiveness of Indian industry because taxes on power get embedded in manufacturer's costs, and cannot be claimed back as input tax credits. Inclusion of land and real estate and alcohol in GST will improve transparency and reduce corruption; keeping health and education completely out is inconsistent with equity because these are services consumed disproportionately by the rich. Moreover, the tax on gold and jewelry products—items that are disproportionately consumed by the very rich-at 3 percent is still low.

The multiplicity of rates was a response to meeting a variety of objectives, including the need to keep rates down for a number of essential items to protect poorer sections from price rises.

Table 5. GST Rates and Exclusions from Base

<table>
<tr><th colspan="3">IGST (%)</th><th rowspan="2">Number of Goods categories*</th><th rowspan="2">Major Goods outside the GST</th></tr>
<tr><th>CGST (%)</th><th>SGST (%)</th><th>Total (%)</th></tr>
<tr><td>0</td><td>0</td><td>0</td><td>88</td><td rowspan="6">• Alcohol
• Petroleum and energy
• Electricity
• Land and real estate
• Education
• Healthcare</td></tr>
<tr><td>1.5</td><td>1.5</td><td>3</td><td>Gold</td></tr>
<tr><td>2.5</td><td>2.5</td><td>5</td><td>173</td></tr>
<tr><td>6</td><td>6</td><td>12</td><td>200</td></tr>
<tr><td>9</td><td>9</td><td>18</td><td>521</td></tr>
<tr><td>14</td><td>14</td><td>28</td><td>229</td></tr>
</table>

Cesses (multiple)

IGST is the sum of the GST taxes by the Centre (CGST) and the states (SGST).
*Measured as number of Harmonized System (HS) lines defined under the tariff code

The GST Council—a remarkable institutional innovation in the governance of cooperative federalism, and one that has proven to be so already in its first months of existence—will need to take up these challenges in the months ahead to take India from a good GST to an even better one.

[1] See the Subramanian Committee Report on the Revenue Neutral Rate:http://www.cbec.gov.in/resources//htdocs-cbec/gst/cea-rpt-rnr-new.pdf

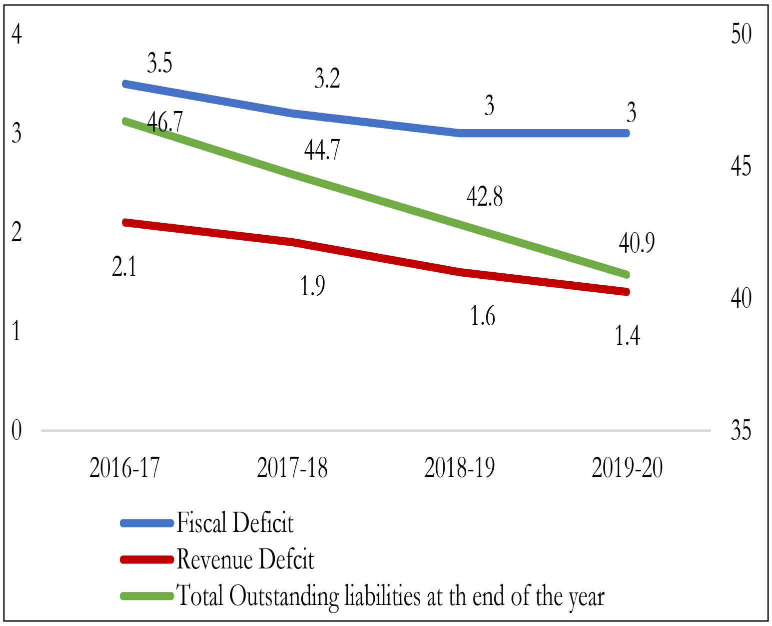
finances, warranted adherence to a path of consolidation.

2.34 The Budget for 2017-18 assumed a moderation in indirect tax revenue growth (Table 11), possibly for two reasons. There are no significant measures for additional resource mobilization in the current year. This, and the expected transition to the GST regime, explains the more conservative budget numbers in excise duties and service tax, and broadly in indirect taxes, for the current fiscal. In the aftermath of demonetisation, direct taxes are budgeted to achieve greater momentum. The compulsions of the recommendations of the 7th Pay Commission made it difficult to compress revenue expenditure significantly.

2.35 The fiscal deficit target of 3 per cent of GDP under the FRBM framework is projected to be achieved in 2018-19. The deficit consolidation plan also implies a reduction in the outstanding liabilities of the Central Government by almost 2 percentage points in each of the next three years starting 2017-18 (Figure 19).

2.36 As per the fiscal roadmap rolled out by FFC for the States, the States that have zero revenue deficit and fiscal deficit within 3 per cent of GSDP have additional borrowing options upto 0.5 per cent of GSDP, over and above the normal 3 per cent limit, subject to conditions (Box 2). The fiscal space of the State Governments to implement the loan waiver is examined in Box 3. The implementation of farm loan waiver by different States of different magnitudes may do well to operate within these limits to ensure that the debt sustainability of the general government is not compromised.

Figure 19. Fiscal targets as percent of GDP



Source: **Union Budget 2017-18**

Note: **The outstanding liabilities of the Centre for 2016-17 presented here do not match with the figure in table 4 because the former is net of investment in special State Government securities**

Box 2. State-wise Fiscal Assessment of Loan waivers

What is the fiscal ability of states to implement the farm loan waivers? Assessing this requires estimating the potential cost of the waivers, quantifying the fiscal space for the states relative to their FRL limits, and comparing the two. The analysis is shown in Table below.

State Specific Fiscal Space for Farm Loan Waiver

State	GSDP current MP (2017-18)	FD without UDAY in 2017-18 (BE)	Fiscal Ceiling post FFC	Fiscal Space	FD without UDAY in 2017-18 (BE)	Fiscal Ceiling post FFC	Fiscal Space
	Lakh crore	In Thousand	Rupee Crore		Per cent of GSDP		
Andhra Pradesh	7.7	23.1	23.1	0.0	3.0	3.0	0.0
Uttar Pradesh	14.2	42.6	42.6	0.0	3.0	3.0	0.0
Rajasthan	8.3	24.8	24.8	0.0	3.0	3.0	0.0
Kerala	7.5	25.8	22.4	0.0	3.4	3.0	-0.4
Himachal Pradesh	1.4	4.9	4.2	0.0	3.5	3.0	-0.5
Odisha	4.1	14.4	14.4	0.0	3.5	3.5	0.0
Chhattisgarh	2.8	9.7	9.7	0.0	3.5	3.5	0.0
Maharashtra	25.4	38.8	76.2	37.4	1.5	3.0	1.5
West Bengal	10.8	19.4	32.4	13.1	1.8	3.0	1.2
Gujarat	12.8	23.2	38.3	15.1	1.8	3.0	1.2
Jharkhand	3.0	6.9	9.1	2.2	2.3	3.0	0.7
Haryana	6.2	16.2	18.6	2.4	2.6	3.0	0.4
Karnataka	12.8	33.4	44.8	11.5	2.6	3.5	0.9
Tamilnadu	15.0	42.0	45.1	3.2	2.8	3.0	0.2
Uttarakhand	2.3	6.6	6.8	0.2	2.9	3.0	0.1
Punjab	5.0	14.6	15.1	0.5	2.9	3.0	0.1
Bihar	6.3	18.1	22.1	4.0	2.9	3.5	0.6
Madhya Pradesh	7.4	21.1	25.7	4.7	2.9	3.5	0.6
Telangana	**7.6**	**26.1**	**26.6**	**0.5**	3.5	3.5	0.0
TOTAL	**160.6**	**411.6**	**502.2**	**94.6**	**2.6**	**3.1**	**0.6**

Notes: Fiscal ceiling is calculated based on the 14th Finance Commission (FFC) recommendations. The necessary condition for being allowed to use additional fiscal space is a zero revenue deficit in the current and preceding years. Then, 0.25% of GSDP worth of fiscal space is available if the interest payment to revenue receipt ratio is less than or equal to 10 %; and an additional 0.25% of GSDP if the debt to GDP ratio is less than 25% of GSDP. The fiscal deficit number for Uttar Pradesh, Punjab and Uttarakhand is for 2016-17 BE.

States are ranked by the extent of fiscal space. The fiscal limit for most states is 3 percent of GSDP. However, six states (Odisha, Chhattisgarh, Telangana, Madhya Pradesh, Karnataka, and Bihar) have higher limits of 3.5 percent of GSDP because they have strong overall fiscal positions, as deemed by the Fourteenth Finance Commission's (FFC's) criteria.

Comparing limits with the BE estimates for 2017-18, we find that only seven states have fiscal space exceeding 0.5 percent of GSDP. The states with the most space in rupee terms are Maharashtra, Gujarat, West Bengal, Karnataka and Madhya Pradesh. In relative terms, Jharkhand also has considerable space, amounting to 0.7 percent of GSDP. States with no additional deficit capacity include Uttar Pradesh, Telangana, Rajasthan, Andhra Pradesh, and Odisha

For the country as a whole, additional fiscal space amounts to about ₹ 95,000 crores or 0.6 percent of GDP. If this space were to be used for loan waivers, the impact on aggregate demand would come from the interest cost of financing that amount—about ₹ 6,350 crores.

Appendix 1. Major Tax Measures Taken During 2016-17

(a) Major Measures Under Direct Taxes

- Lowering tax rate to 29% for companies with turnover ≤ ₹ 5 crores.
- Manufacturing companies incorporated on or after 1.3.2016 have been given an option to be taxed at 25% without claiming any deductions.
- 100% Deduction to developers of affordable housing projects
- Deduction allowable in respect of rents increased to ₹ 60,000 from ₹ 24,000 for the individual taxpayers who don't get any house rent allowance.
- Presumptive taxation scheme for professionals having receipts ≤ ₹ 50 lakhs introduced and threshold for presumptive taxation scheme for business increased from ₹ 1 crore to 2 crore.
- Exemption of long term capital gains for investment in a start-up fund and on sale of residential property for investment in the shares of Start-up company.100% profit linked deduction for three consecutive years out of five years.
- New Dispute Resolution Scheme introduced to reduce the backlog of litigation.
- Income Disclosure Scheme, 2016 introduced to provide an opportunity to the persons who have failed to pay tax in past.
- Tax-free withdrawal upto 40% of the balance in NPS has been provided at the time of superannuation of employee .
- Introduction of equalization levy of 6% to bring certain off-shore digital transactions within the purview of direct taxation in line with International standard.
- Additional deduction of interest on home loan up to ₹ 50,000 for individual tax payers.
- Pradhan Mantri Garib Kalyan Yojana, 2016, was introduced, wherein an opportunity has been provided to a person having undisclosed income in the form of cash/ bank depositto declare the same by paying tax, surcharge and penalty of 49.9% of such income along with mandatory deposit of 25% of such income.

(b) Major Measures Under Excise and Customs Duties

i. 'Make In India' Incentives For Domestic Industry

Customs

- Export duty on iron ore fines and lumps with Fe content below 58% and chromium ores and concentrates was fully exempted, and on bauxite was reduced from 20% to 15%.
- BCD(BCD) on coal, lignite,peat, and 'Oils and other products' of the distillation of high temperature coal tar was rationalized at 2.5% and BCDat 5% for Coke and semi-coke of coal, of lignite or of peat;Coal gas, water gas, producer gas and similar gases, other than petroleum gases and other gaseous hydrocarbons;
- BCD on all acyclic hydrocarbons and all cyclic hydrocarbons other than para-xylene and styrene was rationalized at 2.5%.
- Additional duty of customs levied under section 3(5) of the Customs Tariff Act (commonly known as SAD) on orthoxylenefor manufacture of phthalic anhydride was reduced from 4% to 2%.
- BCD on Wood in chips or particles for manufacture of paper, paperboard and news print were exempted.
- BCD on specified fibres, filaments/yarns reduced from 5% to 2.5% .
- Manufacturer or merchant-exportermay also be registered with the Cotton Textiles Export Promotion Council, in addition to Apparel Export Promotion Council or the Synthetic and Rayon Textile Export Promotion Council and may seek certification for the purposes of availing duty free import entitlement.
- BCD on brass scrap and silica sands was reduced from 5% to 2.5%.
- BCD on primary aluminium and zinc alloys was increased from 5% to 7.5% and on other aluminium products from 7.5% to 10%.1) BCD on Imitation jewellery was increased from 10% to 15%.
- BCD on polypropylene granules / resins for the manufacture of capacitor grade plastic films was reduced from 7.5% to Nil subject to actual user condition.
- BCD on E-Readers was increased from Nil to 7.5% and BCD on raw materials / parts of E –readers was increased to 5%, subject to actual user condition.

- BCD, CVD and SAD exemption on charger /adapter, battery and wired headsets /speakers for manufacture of mobile phones was withdrawn.
- Inputs, parts and components, subparts for manufacture of charger /adapter, battery and wired headsets / speakers of mobile, subject to actual user condition, was exempted from BCD, CVD and SAD.10) Exemption from BCD on Magnetic - Heads (all types), Ceramic / Magnetic cartridges and stylus, Antennas, EHT cables, Level meters/level indicators/ tuning indicators/ peak level meters/ battery meter/VC meters / Tape counters, Tone arms, Electron guns. They will now be chargeable to BCD of 7.5%/10% was withdrawn.
- BCD exemption on preforms of silica for manufacture of telecom grade optical fibre /cables was withdrawn and 10% BCD imposed.
- Specified capital goods and inputs for use in manufacture of Micro fuses, Sub-miniature fuses, Resettable fuses, and Thermal fuses were exempted.
- Exemption from SAD on populated PCBs for manufacture of personal computers, mobile phone/ tablet computer (laptop or desktop) and impose SAD on such populated PCBs was withdrawn.
- BCD on industrial solar water heater was increased from 7.5% to 10% and BCD of 5% was imposedon solar tempered glass.
- Concessional 6% CVD and Nil BCD on electric and hybrid vehicles was extended without any time limit.
- BCD on golf cars was increased from 10% to 60%.
- BCD on Aluminium Oxide for use in the manufacture of Wash Coats, subject to actual user condition, was reduced from 7.5% to 5%.
- BCD on specified capital goods and parts of capital goods falling under 96 Tariff Items was increased from 7.5% to 10%.
- Tariff rate of the BCD on specified capital goods and parts of capital goods falling under 115 Tariff Items was increased from 7.5% to 10%. The effective rate of BCD on these goods will be retained at 7.5%.
- Tools and tool kits were exempted from BCD, CVD and SAD when imported by MROs [registered with the Directorate General of Civil Aviation], for maintenance, repair, and overhauling of aircrafts.
- The restriction of one year for utilization of duty free parts for maintenance, repair and overhaul of aircraft was removed.
- The existing conditions of stay of aircrafts for MRO activity [60 days], so as to provide for stay up to 6 months, and provide for further extension by DGCA, as deemed fit was further relaxed.
- BCD on natural latex rubber made balloons was increased from 10% to 20%.
- BCD on import of Medical Use Fission Molybdenum-99 by Board of Radiation and Isotope Technology (BRIT) for manufacture of radio pharmaceuticals was fully exempted.
- Concessional BCD of 2.5% on Pulp of wood when used for the manufacture of sanitary pads, napkins & tampons [other than adult diapers, for which BCD on pulp is already Nil] was provided.
- Concessional BCD of 5% on Super Absorbent Polymer when used for the manufacture of sanitary pads, napkins & tampons was provided.
- The concessional rate of BCD of 5% to 12 specified items required for medical, surgical, dental or veterinary use and the concessional rate of BCD of 2.5% was restricted to raw materials, parts and accessories required for manufacture of specified goods.
- SAD was restricted to 12 specified items required for medical, surgical, dental or veterinary use.

Excise

- Excise duty on branded readymade garments and made up articles of textiles of retail sale price of ₹ 1000 per piece or more was changed from 'Nil without ITC' to '2% without ITC' irrespective of their composition.
- The tariff value of readymade garments and made up articles of textiles was changed from 30% of the retail sale price to 60% of retail sale price.
- Excise duty on Unsaturated Polyester Resin (polyester based infusion resin and hand layup resin), Hardeners/Hardener for adhesive resin, Vinyl Easter Adhesive (VEA) and Epoxy Resin used for

manufacture of rotor blades for wind operated electricity generators was increased from Nil to 6%.

- Excise duty on carbon pultrusions for manufacture of rotor blades and intermediates, parts and sub-parts of rotor blades for wind operated electricity generators from 12.5% to 6% was reduced, subject to actual user condition.
- Excise duty on rubber sheets & resin rubber sheets for soles and heels, and electric motor, shafts, sleeve, chamber, impeller, washer required for the manufacture of centrifugal pump was reduced from 12.5% to 6%.
- The abatement rate from retail sale price (RSP) for the purposes of RSP based excise duty assessment, for all categories of footwear, was revised from 25% to 30%.
- Excise duty of 2% without ITC or 12.5% with ITC on charger /adapter, battery and wired headsets / speakers, for supply to mobile phone manufacturers as original equipment manufacturer was provided.
- Inputs, parts and components, subparts for manufacture of charger /adapter, battery and wired headsets /speakers of mobile phone, subject to actual user condition, from excise duty was exempted.
- Excise duty of 4% without ITC or 12.5% with ITC on Routers, broadband Modems, Set-top boxes for gaining access to internet, set top boxes for TV, digital video recorder (DVR) / network video recorder (NVR), CCTV camera / IP camera, lithium ion battery [other than those for mobile handsets] was prescribed.
- Excise duty on disposable containers made of aluminium foils increased from 6% with ITC to 12.5% with ITC.
- Concessional 6% excise duty on electric and hybrid vehicleswas extended without any time limit.
- Description of "Engine for HV (Atkinson cycle)" to "Engine for xEV(hybrid electric vehicle)" for the purposes of concessional 6% excise duty was changed.
- Exemption from excise duty to tools and tool kits when procured by MROs for maintenance, repair, and overhauling [MRO] of aircraft subject to a certification by the Directorate General of Civil Aviation was extended.
- The procedure for availment of excise duty exemption on parts, parts, testing equipment, tools and tool-kits for maintenance, repair and overhaul of aircraft based on records was simplified.

ii. Ease of Doing Business

Customs

The exemptions from customs duties on specified goods imported for petroleum exploration under various types of licenses and contracts, Marginal Fields Policy and the Coal Bed Methane Policy were merged into a single exemption with a unified list of specified goods and conditions.

Excise

13 cesses levied by other Ministries / Departments and administered by the Department of Revenue, from each of which the revenue collection is less than ₹ 50 crore in a year were abolished.

iii. Movement Towards GST And Broadening of Tax Base

- Excise duty on all branded readymade garments and made ups, having a retail sale price of ₹ 1000 or more, was changed from 'Nil without ITC or 6%/12.5% with ITC' to '2% without ITC or 12.5% with ITC'.
- Excise duty exemption on Articles of Jewellery [excluding silver jewellery, other than studded with diamonds or other precious stones] was withdrawn and '1% without ITC or 12.5% with ITC' was imposed on them, with a higher threshold exemption upto ₹ 6 crore in a year and eligibility limit of ₹ 12 crore, along with simplified compliance procedure.
- 1% excise duty (without input and capital goods credit) on parts of articles of jewellery falling under heading 7113 of the Central Excise Tariff Act, 1985 (5 of 1986) was prescribed. Further, a criteria for classification of an articles of jewellery or part of articles of jewellery or both as that of a particular precious metal was prescribed.

iv. Swachh Bharat

'Clean Energy Cess' levied on coal, lignite and peat was renamed as 'Clean Environment Cess' and rate was increased from ₹ 200 per tonne to ₹ 400 per tonne.

v. Additional Resource Mobilisation

- Excise duty on aerated waters, lemonade and other waters, containing added sugar or other sweetening matter or flavored was increased from 18% to 21%.
- An Infrastructure Cess was levied on motor vehicles, with specific exemptions, of heading 8703, as under:
  - Petrol/LPG/CNG driven motor vehicles of length not exceeding 4m and engine capacity not exceeding 1200cc – 1%
  - Diesel driven motor vehicles of length not exceeding 4m and engine capacity not exceeding 1500cc – 2.5%
  - Other higher engine capacity motor vehicles and SUVs and bigger sedans – 4%.
- Excise duty on aviation turbine fuel [ATF], other than for supply to aircraft under the Regional Connectivity Scheme, was increased from 8% to 14%.

vi. Relief Measures

Customs

- BCD on refrigerated containers was reduced from 10% to 5%.
- Exemption from BCD on Braille paper was extended.
- Disposable sterilized dialyzer and micro barrier of artificial kidney was exempted from BCD, excise duty / CVD and SAD.

Excise

- Excise duty on refrigerated containers was reduced from 12.5% to 6%.
- Excise duty on improved cookstoves including smokeless chulhas for burning wood, agrowaste, cowdung, briquettes, and coal was exempted unconditionally.
- Solar lamp was exempted from excise duty.

vii. Public Health

- Excise duty on cigarettes, cigars, cheroots and cigarillos and others of tobacco substitutes was increased by about 10% .
- Basic excise duty on pan masala, gutkha, unmanufactured tobacco, chewing tobacco, jarda scented tobacco and filter khaini was increased by about 15%.

(c) Measures under Service Tax

i. Broadening the tax base and increasing the Tax to GDP Ratio

- In Budget 2016-17, the provision made in the previous Budget to tax all services provided by the Government or local authority to business entities was brought into force with effect from 1st April, 2016.
- Krishi Kalyan Cess was imposed on all taxable services at a rate of 0.5% on the value of such taxable services, with effect from 1st June 2016.
- Exemption from Service tax on transportation of passengers, with or without accompanied belongings by air-conditioned stage carriage was withdrawn.
- Withdrawal of exemption from service tax on transport of passengers, with or without accompanied belongings, by ropeway, cable car or aerial tramway.
- Withdrawal of exemption from service tax with respect to construction, erection, commissioning or installation of original works pertaining to monorail or metro, in respect of contracts entered into after 1st March 2016.
- Withdrawal of exemption from service tax on provision of Online Information and Database Access or Retrieval (OIDAR) services, with effect from 1st December, 2016, which are received from a provider of service located in non-taxable territory (cross-border supply of services) by government, local authority, governmental authority, or an individual in relation to any purpose other than commerce, industry or any other business or profession.
- Exemption to import freight service when provided by a foreign flag ship to a foreign charterer with respect to goods destined for India was withdrawn w.e.f. 22nd January, 2017 with a view to provide level playing field to the Indian shipping industry.

ii. For promoting ease of doing business

Exempted from service tax

- Services provided by Government or a local authority to another Government or a local authority with some exceptions;
- Specified services provided by Government or a local authority to an individual who may be carrying out a profession or business;
- Services provided by the Government or a local authority by way of: (i) registration required under the law; (ii) testing, calibration, safety check or certification as specified;
- Services by way of allocation of natural resources to an individual farmer for the purposes of agriculture;
- Regulation of land-use, construction of buildings and other services listed in the Twelfth Schedule to the Constitution, when provided by Government or a local authority;
- Service Tax payable on one time charge, payable in full upfront or in installments, for assignment of right to use any natural resource and not to any periodic payment required to be made by the assignee on yearly installments due after 1.4.2016 in respect of spectrum assigned before 1.4.2016 and on spectrum user charges and license fee payable after 1.4.2016 for the year 2015-16;
- Fines and liquidated damages payable to Government or a local authority for non-performance of contract entered into with Government or local authority

Clarified that:

- Taxes, cesses or duties levied or penalty are not consideration for any particular service as such and hence not leviable to Service Tax;
- Any activity undertaken by Government or a local authority against a consideration constitutes a service and the amount charged for performing such activities is liable to Service Tax;
- In case of services provided by Government or a local authority to any business entity, the point of taxation shall be the earlier of the dates on which: (a) any payment, part or full, in respect of such service becomes due, or (b) such payment is made;
- Interest chargeable on deferred payment in case of any service provided by Government or a local authority to a business entity, where payment for such service is allowed to be deferred on payment of interest, shall be included in the value of the taxable service;
- CENVAT Credit of the Service Tax on one time charges (whether paid upfront or in installments) paid in a year, allowed to be taken evenly over a period of 3 (three) years. However, the Service Tax paid on spectrum user charges, license fee, transfer fee charged by the Government on trading of spectrum would be available in the year in which the same is paid. Likewise, Service Tax paid on royalty in respect of natural resources and any periodic payments shall be available as credit in the year in which the same is paid;
- Service Tax liability for services provided by an arbitral tribunal (including the individual arbitrators of the tribunal) shall be on the service recipient if it is a business entity located in the taxable territory with a turnover exceeding rupees ten lakh in the preceding financial year;
- It was directed that the discretion vested in the jurisdictional Deputy/Assistant Commissioner under rule 6(2) of the Service Tax Rules, 1994, should be exercised judiciously and rationally.
- In any given case involving hiring, leasing or licensing of goods, it is essential to determine whether, in terms of the contract, there is a transfer of the right to use the goods. Criteria laid down by the Supreme Court in the case of Bharat Sanchar Nigam Limited vs Union of India, reported in 2006 (2) STR 161 SC = 2006-TIOL-15-SC-CT-LB, must invariably be followed and applied to cases involving hiring, leasing or licensing of goods;
- The exemption under the entries at Serial No. 12(e) and 25(a) of notification 25/2012-Service Tax, will cover a wide range of activities/services provided to a government, a local authority or a governmental authority and will include the activity of construction of tube wells;
- The immovable property located in the immediate vicinity and surrounding of the religious place and owned by the religious place or under the same management as the religious place, may be considered as being located in the precincts of the religious place and extended the benefit of exemption under Notification No. 25/2012-Service Tax, Sl. No. 5(a).

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