



Government of India

“Pini Inmai Selvam Vilaivu Inbam Emam

Ani Enba Nattirkku Iv Iyndhu”

(Health, wealth, produce, the happiness that is the result, and security

These five, the learned say, are the ornaments of a polity)

Saint Tiruvalluvar

BUDGET 2005-06

February 28, 2005.

Key Features of Budget 2005-2006



THE MACROECONOMIC BACKDROP

- Growth rate in 2004-05 estimated to be 6.9 per cent, with the manufacturing sector expected to grow at 8.9 per cent.
- Inflation has been reined in.
- Investments in 2004-05 buoyant; non-food credit has increased by 21.2 per cent.

ASSAULT ON POVERTY AND UNEMPLOYMENT



- Allocation for National Food for Work programme increased from Rs.4,020 crore in 2004-05 to Rs.11,000 crore in 2005-06. Programme to be converted into the *National Rural Employment Guarantee Scheme*.



- *National Rural Health Mission*: To be launched in the next fiscal with components like training of health volunteers, providing more medicines and strengthening the primary and community health centre system; work on the six AIIMS-like institutions to start next year.

- *Antyodaya Anna Yojana* : Coverage to increase to 2.5 crore families.



- *ICDS*: Scheme to be expanded with creation of 1,88,168 additional anganwadi centres; supplementary nutrition norms to be doubled; Centre to share one-half of the States' costs.

- *Mid-day Meal Scheme*: Increase in allocation from Rs.1,675 crore in BE 2004-05 to Rs.3,010 crore in 2005-06.



- *Sarva Shiksha Abhiyan*: A non-lapsable fund called "Prarambhik Shiksha Kosh" created for funding the programme; allocation to increase to Rs.7,156 crore in 2005-06.



- *Drinking Water and Sanitation:* All drinking water schemes brought under the Rajiv Gandhi National Drinking Water Mission; emphasis to be on providing drinking water facilities in the remaining uncovered rural habitations; and on tackling water quality in about 2.16 lakh habitations; Total Sanitation Campaign to be extended to all districts;

- *Scheduled Castes and Scheduled Tribes:* A new window to be added to scholarship schemes: any student securing admission in one of the short listed institutes of excellence, to be awarded a larger scholarship for tuition fees, living expenses, books and a computer; Rajiv Gandhi National Fellowship to be introduced for SC and ST students for pursuing M.Phil ;and Ph.D. courses in selected universities.



- *Women and Children:* In course of time, Departments to be required to present gender budgets as well as make benefit-incidence analyses.

- *Minorities:* Equity support for the National Minorities Development and Finance Corporation to be increased; a certain percentage of new schools under the Sarva Shiksha Abhiyan and the Kasturba Balika Vidyalaya Scheme and new anganwadi centres to be located in districts, blocks or villages with a substantial minority population; assistance to be provided for recruitment and posting of Urdu language teachers in primary and upper-primary schools; schemes for pre-examination coaching to include reputed private coaching institutes.

- *Backward Regions Grant Fund:* To be established; an allocation of Rs.5,000 crore 2005-06, and an equal amount to be allocated every year in the next four years.

- *Bihar:* Transition arrangements under Rashtriya Sam Vikas Yojana (RSVY) to continue until 2006-07; assistance from the Backward Regions Grant Fund; grants amounting to Rs 7,975 crore made by TFC for the period 2005-10.

- *Jammu & Kashmir*: Special plan assistance to be provided under a Reconstruction Plan in addition to the normal State Plan; Baglihar project to be provided adequate funds; Udhampur -- Baramulla rail line to be implemented as a project of national importance.
- *North Eastern Region*: Kumarghat--Agartala and Luming--Silchar—Jiribam--Imphal projects to be supported with additional funds outside the railway budget; special package for highway development (Rs.450 crore).

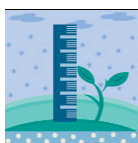


- *Rural Infrastructure Development Fund*: A corpus of Rs.8000 crore in 2005-06.

BHARAT NIRMAN

Goals:

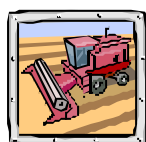
- to bring an additional one crore hectares under assured irrigation;
- to connect all villages that have a population of 1000 (or 500 in hilly/tribal areas) with a road;
- to construct 60 lakh additional houses for the poor;
- to provide drinking water to the remaining 74,000 habitations that are uncovered;
- to reach electricity to the remaining 1,25,000 villages and offer electricity connection to 2.3 crore households; and
- to give telephone connectivity to the remaining 66,822 villages.



INVESTMENT

- Equity support of Rs.14,040 crore and loans of Rs.3,554 crore to Central Public Sector Enterprises (including Railways) in 2005-06.

AGRICULTURE



- *Roadmap for Agricultural Diversification*: To be prepared with focus on fruits, vegetables, flowers, dairy, poultry, fisheries, pulses and oilseeds.
- *National Horticulture Mission*: Rs.630 crore in 2005-06; to cover research, production, post-harvest management, processing and marketing in an integrated manner.



- *Agricultural Marketing Infrastructure:* A new scheme for Development/Strengthening of Agricultural Marketing Infrastructure, Grading and Standardization to be introduced to induce large investments from the private and cooperative sectors for setting up agricultural markets, marketing infrastructure and support services such as grading, standardization and quality certification; to be implemented through NABARD and NCDC in those States which amend their APMC Acts.



- *Water Resources, Flood Management and Erosion Control:* National Project for the repair, renovation and restoration of water bodies to be launched in March 2005; pilot project for 16 districts in 9 States to cover nearly 700 water bodies; 20,000 hectares of additional land to come under irrigation; outlay of Rs.180 crore in 2005-06 for flood management and erosion control in the Ganga basin and in the Brahmaputra and Barak valleys; Rs.52 crore for the Farakka Barrage Project; outlay for AIBP to increase to Rs.4,800 crore in 2005-06.



- *Micro Irrigation:* Coverage to increase to 3 million hectares in the Tenth Plan and to 14 million hectares in the Eleventh Plan.

- *Rural Credit and Indebtedness:* RBI to examine the issue of allowing banks to adopt the agency model by using the infrastructure of civil society organizations, rural kiosks and village knowledge centres to provide credit support; agricultural credit of Rs.108,500 crore to be disbursed in the current year; increase in the flow of credit by another 30 per cent in 2005-06; public sector banks to increase the number of borrowers by another 50 lakh;

- *Farm Insurance:* National Agricultural Insurance Scheme (NAIS) to continue for kharif and rabi 2005-06.

- *Micro Finance:* Target for credit-linking to be enhanced from 2 lakh Self Help Groups (SHGs) to 2.5 lakh SHGs; Micro Finance Development Fund to be redesignated as the “Micro Finance Development and Equity Fund” with an increased corpus of Rs.200 crore; RBI to open a window to enable qualified NGOs to use the External Commercial Borrowing (ECB) window.

- *Micro Insurance*: NGOs, SHGs, cooperatives and MFIs to be invited to become micro insurance agents.
- *A Knowledge Centre in Every Village*: Government to join Mission 2007 - a national initiative launched by an alliance comprising nearly 80 organizations including civil society organizations, with the goal to set up a Knowledge Centre in every village by the 60th anniversary of Independence Day; support to be routed through NABARD; Rs.100 crore to be provided out of the RIDF.
- *Agricultural Research*: An initial provision of Rs.50 crore for the National Fund for Strategic Agricultural Research.



MANUFACTURING



- “Manufacturing Competitiveness Programme” to be launched to help small and medium enterprises; design to be worked out by the National Manufacturing Competitiveness Council in consultation with the industry.
- *Textiles*: Allocation of Rs.435 crore for the Technology Upgradation Fund (TUF); a 10 per cent capital subsidy scheme to be introduced for the textile processing sector; cluster development approach to be adopted for the production and marketing of handloom products; 20 clusters to be taken up in the first phase at a cost of Rs.40 crore; coverage of life insurance scheme for handloom weavers to be enlarged to 20 lakh weavers in two years at a cost of Rs.30 crore per year when fully rolled out; coverage of the health insurance package for weavers to be increased to 2 lakh weavers at a recurring cost of Rs.30 crore per year.
- *Sugar industry*: NABARD, in consultation with State Governments, RBI, banks and financial institutions to work out a scheme for providing a financial package with a moratorium for two years, on both principal and interest, and a schedule of payment having regard to the commercial viability of each unit; interest rate of 2 percentage points below the bank rate to be made applicable to outstanding loans as on October 21, 2004; Indian Banks’ Association (IBA) and NABARD to work out a scheme under which factories may renegotiate their past high interest loans.





- *Pharmaceuticals and Biotechnology*: Corpus for the research and development fund to be increased in phases; stable policy environment and incentives to be provided to help the two industries become world leaders.



- *Small and Medium enterprises*: 108 items identified for de-reservation; provision for “Promotion of SSI Schemes” enhanced to Rs.173 crore in 2005-06; units in knowledge-based industries such as pharma, biotech, and IT to be provided equity support through the SME Growth Fund.
- *Skills Training*: 100 ITIs identified for upgradation; out of them, 67 ITIs in 15 States/Union Territories linked with industry to be upgraded at a cost of Rs.1.6 crore each; Skills Development Initiative (SDI) to be introduced as Public-Private Partnership.
- *Foreign Trade*: Target of US\$ 150 billion for exports by the year 2008-09 fixed in order to double India’s share in world exports to 1.5 per cent.

INFRASTRUCTURE



- *Telecommunications*: A provision of Rs.1,200 crore for Universal Service Obligation (USO) Fund in 2005-06; 1,687 subdivisions to get support for rural household telephones; BSNL to provide public telephones in the next three years to the remaining 66,822 revenue villages.



- *National Highway Development Project*: NHDP III to be launched in 2005-06 to target selected high density highways not forming part of the Golden Quadrilateral or the North-South and East-West corridors; Rs.1,400 crore provided in 2005-06 to four-lane 4000 kms; a special package for the North Eastern region with allocation of Rs.450 crore.



- *Rural Electrification*: To cover 1.25 lakh villages in five years; focus to be on deficient States; creation of a rural electricity distribution backbone envisaged, with a 33/11 KV substation in each block and at least one distribution transformer in each village; Rs.1,100 crore provided in 2005-06.

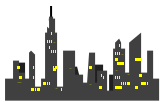


- *Indira Awas Yojana*: Allocation increased to Rs.2,750 crore in 2005-06; about 15 lakh houses to be constructed during the next year.



- *Special Purpose Vehicle*: A financial Special Purpose Vehicle (SPV) to be established to finance infrastructure projects that are financially viable; SPV to lend funds, especially debt of longer term maturity directly to eligible, appraised projects to supplement other loans; limit for 2005-06 to be fixed at Rs.10,000 crore.

- *Provision of Urban Amenities in Rural Areas (PURA) clusters*: The National Commission on Enterprises in the Unorganized/Informal Sector has proposed pilot projects for ‘growth poles’ applying the PURA principles; creation of a few growth poles, as pilot projects to be taken up in 2005-06.



- *National Urban Renewal Mission*: To cover the seven-mega cities, with a population of over a million and some other towns; outlay of Rs.5,500 crore in 2005-06 including a grant component of Rs.1,650 crore.

FINANCIAL SECTOR

Banking:



- Amendments to be introduced to the Banking Regulation Act, 1949 –
 - ◆ to remove the lower and upper bounds to the statutory liquidity ratio (SLR) and provide flexibility to RBI to prescribe prudential norms;
 - ◆ to allow banking companies to issue preference shares; to introduce specific provisions to enable the consolidated supervision of banks and their subsidiaries by RBI;
- Amendments to be introduced to the Reserve Bank of India Act, 1934 -
 - ◆ to remove the limits of the cash reserve ratio (CRR) to facilitate more flexible conduct of monetary policy; and
 - ◆ to enable RBI to lend or borrow securities by way of repo, reverse repo or otherwise.

Capital Market:



- FIIs to be permitted to submit appropriate collateral, in cash or otherwise, as prescribed by SEBI, when trading in derivatives on the domestic market.
- Definition of ‘securities’ under the Securities Contracts (Regulation) Act, 1956 to be amended so as to provide a legal framework for trading of securitized debt including mortgage backed debt;
- A high level Expert Committee on corporate bonds and securitization to be appointed to look into the legal, regulatory, tax and market design issues in the development of the corporate bond market.
- A one-time exemption from stamp duty on the notional transfer of assets, to be granted to the three stock exchanges that are not yet corporatized.
- A high powered Expert Committee to be appointed in consultation with RBI, to advise on how to make Mumbai a regional financial centre.
- SEBI to be asked to permit, in consultation with RBI, mutual funds to introduce Gold Exchange Traded Funds (GETFs) with gold as the underlying asset, in order to enable any household to buy and sell gold in units for as little as Rs.100.

OTHER PROPOSALS

- *Higher Education:* Indian Institute of Science (IISc), Bangalore to be made a world class university; additional grant of Rs.100 crore to be provided.
- *VAT:* All States have agreed to introduce the value added tax (VAT) with effect from April 1, 2005; Central Government to compensate the States, according to an agreed formula, in the event of any revenue loss.
- *Twelfth Finance Commission:* Generous, but deserving package covering higher devolution of taxes, debt relief and grants.



- *Defence Expenditure:* Allocation in 2005-06 increased to Rs.83,000 crore, including Rs.34,375 crore for capital expenditure.

FISCAL CONSOLIDATION



- A mechanism to be put in place to measure the development outcomes of all major programmes; schemes not to be allowed to continue from one Plan period to the next without an independent and in-depth evaluation.
- Ministry of Agriculture intends to make procurement of food grains more cost effective through decentralized procurement, especially in the non-traditional States, without impairing the present MSP-based procurement.
- Working Group constituted by the Department of Fertilizers examining issues for implementing the next stage of the New Pricing Scheme for fertilizers commencing from April 1, 2006.

INDIRECT TAXES

Customs:



- Policy of making the customs duty structure closer to that of East Asian neighbours to be pursued; peak rate for non-agricultural products to be reduced from 20 per cent to 15 per cent.
- To promote investment, customs duties on selected capital goods and parts thereof to be reduced to below 15 per cent, to 10 per cent in some cases and to 5 per cent in some others.
- Duty on textile machinery and refrigerated vans to be reduced from 20 per cent to 10 per cent.
- Duties on seven specified machinery used in leather and footwear industry, to be reduced from 20 per cent to 5 per cent; duty on ethyl vinyl acetate (EVA) to be reduced from 20 per cent to 10 per cent.
- Duty on nine specified machinery used in pharma and biotech sectors to be reduced to 5 per cent.

- Duties on specified parts of battery-operated road vehicles and for printing presses to be reduced from 20 per cent to 10 per cent.
- Duties on primary and secondary metals to be reduced from 15 per cent to 10 per cent; industrial raw materials such as catalysts, refractory raw materials, basic plastic materials, molasses and industrial ethyl alcohol to be now liable to a reduced customs duty rate of 10 per cent; duty on lead to be reduced to 5 per cent.
- Duty on coking coal with high ash content to go down to 5 per cent.
- Duty on polyester and nylon chips, textile fibres, yarns and intermediates, fabrics, and garments to be reduced from 20 per cent to 15 per cent.
- Duty to be removed on specified capital goods and all inputs required for the manufacture of Information Technology Agreement (ITA) bound items.
- A CVD of 4 per cent only to be levied on the imports of ITA bound items and their inputs that attract nil duty; credit for the CVD to be available against payment of excise duty; IT software to be exempt from the proposed CVD.
- Duty on atmospheric drinking water generators to be reduced from 20 per cent to 5 per cent.



Excise:

- Duty on polyester filament yarn, tyres and air conditioners to be reduced to 16 per cent.
- Independent texturizers to be given the option to avail the exemption route or pay 8 per cent excise duty with CENVAT credit.
- Duty of 2 per cent to be levied on branded jewellery; duty on mosaic tiles to be levied at 8 per cent and on road tractors for semi trailers of engine capacity exceeding 1800 cc at 16 per cent; agricultural tractors will continue to remain exempt.

- Surcharge of Re1 per kg on tea and duty of Re1 per kg on refined edible oils and Rs.1.25 per kg on vanaspati to be abolished.
- Ceiling for SSI exemption based on turnover to be raised from Rs.3 crore per year to Rs.4 crore per year. SSI units to have only two options: either full exemption on the first clearance of Rs.1 crore or normal duty on the first clearance of Rs.1 crore with CENVAT credit.
- Duty on iron and steel to be reduced to 16 per cent.
- Duty on molasses to be increased from Rs.500 per MT to Rs.1000 per MT; duty on cement clinkers to be increased from Rs.250 per MT to Rs.350 per MT as an anti-avoidance measure.
- In order to raise additional resources for the National Highways Development Project, cess on petrol and diesel to be increased by 50 paise per litre.
- Specific rate on cigarettes to be raised by about 10 per cent and a surcharge of 10 per cent to be imposed on ad valorem duties on other tobacco products including gutka, chewing tobacco, snuff and pan masala; biris not to be subject to this levy.

Taxes on petroleum products



- Customs duty on crude petroleum to be reduced from 10 per cent to 5 per cent.
- Customs duty and excise duty to be nil on LPG for domestic consumption and on subsidized kerosene,
- Customs duty on other petroleum products, including motor spirit (MS) and diesel (HSD) to be reduced from 20 or 15 per cent to 10 per cent; excise duties on petrol and diesel to be fixed as a combination of ad valorem and specific duties.

Service Tax



- Service providers whose gross turnover does not exceed Rs.4 lakh per year to be exempt.
- Some additional services to be covered.

Direct Taxes



The new tax brackets and the new rates to be:

Up to Rs.1 lakh	..	nil
Rs.1 lakh to Rs.1.5 lakh	..	10 per cent
Rs.1.5 lakh to Rs.2.5 lakh	..	20 per cent
Above Rs.2.5 lakh	..	30 per cent

- Level at which the surcharge of 10 per cent will apply to be raised to Rs.10 lakh taxable income.
- The threshold exemption level for women to be fixed at Rs.1.25 lakh and the exemption level for senior citizens at Rs.1.5 lakh.
- Every tax payer to be allowed a consolidated limit of Rs.1 lakh for savings which will be deducted from the income before tax is calculated; all prevailing sectoral caps to be removed; rebate under Section 88 being eliminated and Section 80L being omitted to reflect the new regime.
- The exemption from tax on interest earned on accounts maintained by Non Resident Indians to continue.
- The benefits that are usually enjoyed collectively by the employees and cannot be attributed to individual employees shall be taxed in the hands of the employer; transport services for workers and staff and canteen services in office or factory to be outside the tax net; the tax to be called Fringe Benefits Tax; rate to be 30 per cent on an appropriately defined base.
- For domestic companies, the corporate income tax rate to be 30 per cent; plus a surcharge of 10 percent; rate of depreciation to be 15 per cent for general machinery and plant, but the initial depreciation rate to be increased to 20 per cent; requirement of 10 per cent increase in installed capacity for availing of the benefit of initial depreciation to be removed.
- Withholding tax on technical services to be reduced from 20 per cent to 10 per cent.

- Credit to be allowed for the Minimum Alternate Tax (MAT) paid under Section 115 JB of the Income Tax Act.
- Terminal date on exemptions given for specific purposes, to be extended, from March 31, 2005 to March 31, 2007 in the following cases:
 - ◆ Weighted deduction of 150 per cent of expenditure on in-house research and development facilities of companies engaged in the business of biotechnology, pharmaceuticals, electronics, telecommunication, chemicals or any other notified product.
 - ◆ Deduction of profits of new industrial undertakings in Jammu & Kashmir.
 - ◆ 100 per cent deduction of profits of companies carrying on scientific research and development and approved by the Department of Scientific and Industrial Research.
- Tax exemption on agreements to acquire aircraft or aircraft engines on lease to be extended up to September 30, 2005.
- Nominal increase in the rates of STT for all categories of transactions.
- Income Tax Act to be amended to provide that trading in derivatives in specified stock exchanges will not be treated as “speculative transactions” for the purposes of the Income Tax Act.
- Mobile telephone to be removed from the one-in-six criteria for filing income tax returns. Instead, payment for electricity of more than Rs.50,000 per year to be included.
- Two anti tax-evasion measures to be introduced: (i) a tax to be levied on withdrawal of cash on a single day of over Rs.10,000 or more from banks at the rate of 0.1 per cent. (ii) banks to be required to report all deposits which are exempt from TDS on interest.
- As a measure of facilitation, large taxpayer units (LTUs) to be established, to begin with, in major cities; Help Centres for small taxpayers to be setup in cooperation with industry associations, professional bodies and NGOs.

NOTE