सत्यमेव जयते

Government of India

"We reap what we sow. We are the makers of our own fate. The wind is blowing; those vessels whose sails are unfurled catch it, and go forward on their way, but those which have their sails furled do not catch the wind. Is that the fault of the wind?....... We make our own destiny."

Swami Vivekananda

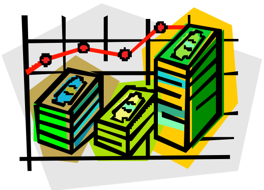
BUDGET 2006-07

February 28, 2006

website: http://indiabudget.nic.in

Key Features of Budget 2006-2007

AN OVERVIEW OF THE ECONOMY



- *2004-05*: growth rate was 7.5 per cent, with the manufacturing sector at 8.1 per cent; gross domestic saving at current market prices increased to 29.1 per cent of GDP and the rate of gross capital formation to 30.1 per cent of GDP.
- *2005-06:* GDP growth likely to be 8.1 per cent with the manufacturing sector at 9.4 per cent; agricultural growth bounced back to 2.3 per cent; inflation, as on February 11, 2006 was 4.02 per cent; non-food credit growing by over 25 per cent.

IMPLEMENTING THE NCMP MANDATE

- *Focus on agriculture*: output of food grains expected to be 209.3 million tonnes, 5 million tonnes more than the previous year.
- *Promoting employment:* National Rural Employment Guarantee Scheme launched; in the current year, Rs.11,700 crore to be spent to create rural employment.
- *Enhancing investment*: investment rate increased from 25.3 per cent in 2002-03 to 30.1 per cent in 2004-05.
- *Augmenting infrastructure*: 5,083 MW of capacity to be added to power generation in 2005-06, during the Tenth Plan period the total addition estimated at 34,000 MW; until December, 2005, under Rajiv Gandhi Grameen Vidyutikaran Yojana, contracts placed for projects spanning 95 districts and covering 41,461 un-electrified and 9,379 electrified villages; Golden Quadrilateral (GQ) and the North-South, East-West Corridors- progressing at the rate of 4.48 kms per day; 96 per cent of the GQ to be completed by June, 2006 and the Corridors by end 2008.

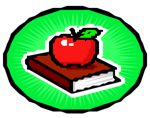
BHARAT NIRMAN

- *In the first year of implementation, 2005-06*: Rs.944.18 crore released so far as grant under AIBP, target of 600,000 hectares of irrigation potential expected to be created this year; against target of 56,270 habitations, 47,546 habitations covered until January, 2006 under Accelerated Rural Water Supply Project; 5,337 habitations connected under rural roads programme by September, 2005, and Rs.3,749 crore released so far; 870,000 rural houses constructed, sum of Rs.2,260 crore released till January, 2006; Rs.1,100 crore released for rural electrification, target of covering 10,366 villages expected to be achieved;17,182 villages provided with a telephone till December, 2005.
- Against Rs.12,160 crore in the current year, Rs.18,696 crore to be provided in 2006-07 for the programme, increase of 54 per cent.

FLAGSHIP PROGRAMMES

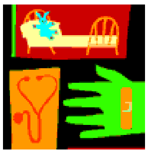
- Allocation for eight flagship programmes to increase by 43.2 per cent from Rs.34,927 crore in 2005-06 to Rs.50,015 crore.
- ***North Eastern Region (NER)*:** In addition 10 per cent of the Plan Budget of each Ministry/Department to be allocated for schemes and programmes in the North Eastern Region (NER); for the flagship programmes allocation of Rs.4,870 crore in 2006-07; total allocation for NER is Rs.12,041 crore.

- ***Sarva Siksha Abhiyan:*** 93 per cent of children in age group 6-14 years are in school, number of children not in school has come down to about one crore; outlay to increase from Rs.7,156 crore to Rs.10,041 crore in 2006-07; 500,000 additional class rooms to be constructed and 150,000 more teachers to be appointed; Rs.8,746 crore to be transferred to the Prarambhik Siksha Kosh from revenues through education cess.



- ***Mid-day Meal Scheme:*** 12 crore children now covered; allocation to be enhanced from Rs.3,010 crore to Rs.4,813 crore.

- ***Drinking Water and Sanitation:*** 56,270 habitations and 140,000 schools to be covered in the current year; non-recurring assistance of Rs.213 crore to be provided in 2006-07 for setting up district-level water testing laboratories and field-level water testing kits; provision for Rajiv Gandhi National Drinking Water Mission to be increased from Rs.3,645 crore to Rs.4,680 crore and for Rural Sanitation Campaign from Rs.630 crore to Rs.720 crore.



- ***National Rural Health Mission:*** more than 200,000 Associated Social Health Activists (ASHA) to be fully functional and over 1,000 block level community health centres to provide round the clock services; allocation increased from Rs.6,553 to Rs.8,207 crore.

- ***Integrated Child Development Services:*** additional 188,168 centres created; Centre assisting the States to the extent of 50 per cent of the actual expenditure incurred for supplementary nutrition or 50 per cent of the cost norms, whichever is less - cost estimated at Rs.1,500 crore and this assistance to increase to Rs.1,700 crore; total allocation for ICDS increased from Rs.3,315 crore to Rs.4,087 crore.

- ***National Rural Employment Guarantee Scheme:*** allocation of Rs.14,300 crore for rural employment in 2006-07 with Rs.11,300 crore under NREG Act and Rs.3000 crore under SGRY, more funds to be provided according to need.

- ***Jawaharlal Nehru National Urban Renewal Mission:*** estimated outlay of Rs.6,250 crore for 2006-07 with grant of Rs.4,595 crore; Government to promote establishment of new towns, preferably focussed on a specific industry, for example Information Technology, or a specific theme, for example education or health.

- ***National Social Assistance Programme:*** old age pension to destitutes above the age of 65 years to increase from Rs.75 per month to Rs.200 per month; Rs.1,430 crore provided for 2006-07; State Governments urged to make an equal contribution; a system to be established, within two years, for pension to be credited directly to the account of the beneficiary in a post office or a bank.

- ***Women and Children:*** gender sensitivities of the budgetary allocations highlighted through an enlarged statement on gender budgeting to include schemes where 100 per cent of the allocation is for the benefit of women as well as schemes where at least 30 per cent of the allocation is targeted towards women; statement covers 24 demands for grants in 18 Ministries/Departments and five Union Territories and schemes with an outlay of Rs.28,737 crore; 32 Ministries and Departments have set up Gender Budgeting Cells.

- ***Scheduled Castes and Scheduled Tribes:*** a statement on schemes for welfare and development of SCs and STs included in Budget; allocations for schemes benefiting only SCs and STs enhanced by 14.5 per cent to Rs.2,902 crore and for schemes with at least 20 per cent allocation for SCs and STs enhanced by 13.9 per cent to Rs.9,690 crore; equity contribution to the National SC Finance and Development Corporation increased to Rs.37 crore and to the National Safai Karamchari Finance and Development Corporation to Rs.80 crore.

- ***Minorities:*** corpus of Maulana Azad Educational Foundation to be doubled to Rs.200 crore; Rs.16.47 crore to be contributed to strengthen equity base of National Minorities Development and Finance Corporation; Corporation to intensify efforts to reach to artisans and weavers in urban and peri-urban centres especially in districts with concentration of minorities; programme to focus on skill enhancement, credit and techno-managerial support; allocation to National Council for Promotion of Urdu Language increased from Rs.10 crore to Rs.13 crore; Government to finance 20,000 merit-cum-means based scholarships to encourage students to pursue higher studies.

- ***Kasturba Gandhi Balika Vidyalaya Scheme:*** 1,000 new residential schools for girls from SC, ST, OBC and minority communities to be opened in 2006-07; Rs.128 crore provided and an additional sum of Rs.172 crore to be provided during the year; as a further incentive to the girl child who passes the VIII Standard Examination and enrols in a secondary school, a sum of Rs.3,000 to be deposited in her name, to be withdrawn by her on reaching 18 years of age.

INVESTMENT

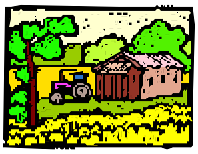
- Government to provide equity support of Rs.16,901 crore and loans of Rs.2,789 crore to Central PSEs (including Railways); infusion of Rs.1,180 crore in cash and non-cash sacrifices of Rs.2566 crore in last two years to restructure ten PSEs, including Indian Telephone Industries Limited and Heavy Engineering Corporation Limited; to develop India as a hub for gems and jewellery, an expert body to be constituted.

AGRICULTURE

- ***Irrigation:*** Outlay of Rs.4,500 crore under AIBP in 2005-06, grant component of Rs.1,680 crore; States expected to spend Rs.2,520 crore from their resources; outlay for 2006-07 increased to Rs.7,121 crore, with grant of Rs.2,350 crore; Command Area Development Programme to be revamped to allow participatory irrigation management through water users' associations; 20,000 water bodies with a command area of 1.47 million hectares identified in the first phase for repair, renovation and restoration; estimated cost Rs.4,481 crore.

- ***Credit:*** Farm credit increased to Rs.125,309 crore in 2004-05; expected to cross target of Rs.141,500 crore for 2005-06; to increase to Rs.175,000 crore in 2006-07 with addition of 50 lakh farmers; banks asked to open a separate window for self-help groups or joint liability groups of tenant farmers; a one time relief to be granted to farmers who have availed of crop loan from scheduled commercial banks, RRBs and PACS for Kharif and Rabi 2005-06, and amount equal to two percentage points of the borrower's interest liability on the principal amount up to Rs.100,000, to be credited to his/her bank account before March 31, 2006; Rs.1,700 crore provided for this purpose.

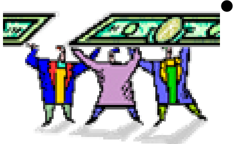
- With effect from Kharif 2006-07 farmers to receive short-term credit at 7 per cent, with an upper limit of Rs.300,000 on the principal amount; subvention for this to be given to NABARD.



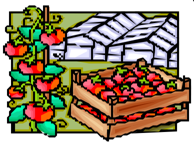
- Sanctions under Rural Infrastructure Development Fund (RIDF XI) at Rs.7,301 crore as on January 31, 2006; corpus for RIDF XII to increase to Rs.10,000 crore; specified projects under PPP model to be allowed to access RIDF funds; separate window for rural roads with a corpus of Rs.4,000 crore during 2006-07.

- ***Agricultural Insurance:*** National Agricultural Insurance Scheme to continu.

- ***Plantation Sector:*** A Special Purpose Tea Fund to be setup, expected contribution of Rs.100 crore in 2006-07.



- ***Micro Finance:*** 801,000 SHGs credit-linked in two years with credit of Rs.4,863 crore disbursed to these SHGs; another 385,000 SHGs to be credit-linked in 2006-07; NABARD to open a line of credit for financing farm production and investment activities through SHGs; Committee to be appointed on Financial Inclusion.



- ***Horticulture and Fisheries:*** terminal markets to be setup on PPP model-Rs.150 crore earmarked for this in 2006-07 under National Horticulture Mission; Central Institute of Horticulture to be established in Nagaland; National Fisheries Development Board to be constituted.

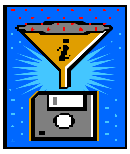
MANUFACTURING

- ***Employment:*** five industries with employment opportunities identified in manufacturing sector, these include textiles, food processing, petroleum, chemicals and petro-chemicals, leather and automobiles; in services, tourism and software can offer large number of jobs.

- ***Textiles:*** allocation for Technology Upgradation Fund (TUF) enhanced from Rs.435 crore to Rs.535 crore; Rs.189 crore to be provided for Scheme for Integrated Textiles Parks (SITP), Jute Technology Mission to be launched; a National Jute Board to be established.

- ***Handlooms:*** Cluster Development approach to continue with 100 clusters to be added at a cost of Rs.50 crore in 2006-07; yarn depots to be established; a 'handloom' mark to be launched; scheme to be introduced to provide interest subsidy on term loans; provision for the handloom sector to be increased from Rs.195 crore to Rs.241 crore.

- ***Food Processing Industry:*** food processing to be a priority sector for bank credit; NABARD to create a refinancing window with a corpus of Rs.1,000 crore, especially for agro-processing infrastructure and market development; National Institute of Food Technology Entrepreneurship and Management to be setup; Paddy Processing Research Centre, Thanjavur to be developed into a national-level institute.
- ***Petroleum, Chemicals and Petro-chemicals:*** a Task Force setup to facilitate development of large PC&P Investment Regions; three such Investment Regions expected to be developed in 2006-07.



- ***Information Technology:*** existing vehicle of viability gap funding and India Infrastructure Finance Company Limited to provide equity and/or viability gap funding to new ventures; window to be open for three years.

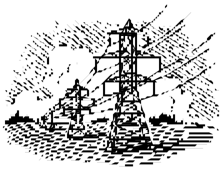
- ***Small and Medium Enterprises:*** 180 items identified for dereservation; to give impetus to lending by SIDBI, SMEs to be recognised in the services sector and small scale enterprises in services sector to be treated on par with small scale enterprises in manufacturing sector; corpus of Credit Guarantee Fund to be raised from Rs.1,132 crore to Rs.2,500 crore in five years; Credit Guarantee Trust for Small Industries to be advised to reduce guarantee fee from 2.5 per cent to 1.5 per cent for all loans; insurance cover to be extended to 30,000 borrowers; ten schemes drawn up under a five-year National Manufacturing Competitiveness Programme, including promotion of ICT, mini tool rooms, design clinics and marketing support for SMEs; implementation to be in the PPP model.
- ***Cluster Development:*** Empowered Group of Ministers to be constituted to lay down policy and oversee implementation.

SERVICES SECTOR

- ***Tourism:*** development of 15 tourist destinations and circuits to be taken up; 50 villages with core competency in handicrafts, handlooms and culture, close to existing destinations and circuits, to be identified and developed; 4 new institutes of hotel management to be established in Chhattisgarh, Haryana, Jharkhand and Uttaranchal; Plan allocation increased from Rs.786 crore to Rs.830 crore.
- ***Foreign Trade:*** share in world exports to be doubled by 2008-09.

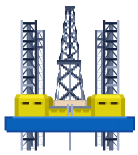
INFRASTRUCTURE

- ***Telecommunication:*** to reach 250 million connections by December, 2007, provision of Rs.1,500 crore for Universal Services Obligation Fund in 2006-07; more than 50 million rural connections to be rolled out in three years.



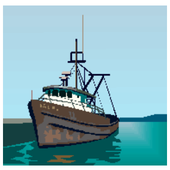
- ***Power:*** five ultra mega power projects of 4,000 MW each to be awarded before December 31, 2006; to create an enabling and empowered framework to carry out reforms an Empowered Committee of Chief Ministers and Power Ministers to be setup; Tenth Plan target of 3,075 MW of installed capacity for non-conventional energy sources exceeded by December 31, 2005 with installation of 3,650 MW capacity; Rs.597 crore provided for non-conventional energy resources; *Rajiv Gandhi Grameen Vidyutikaran Yojana:* 10,000 villages in 2005-06 and 40,000 more villages in 2006-07 to be electrified.

- ***Coal:*** reserves of 20 billion tonnes to be de-blocked for power projects; definition of captive consumption to be amended to allow mining by producers with firm supply contracts with steel, cement and power companies; capacity of Central Mines Planning and Development Institute Limited to drill in order to prove reserves to be expanded.



- ***Petroleum:*** under NELP VI., 55 blocks and area of 355,000 sq kms offered; investment of Rs.22,000 crore expected in the refinery sector, in the next few years.

- ***Road Transport:*** Budget support for NHDP enhanced from Rs.9,320 crore to Rs.9,945 crore in 2006-07; special accelerated road development programme for the North Eastern region at an estimated cost of Rs.4,618 crore approved with allocation of Rs.550 crore in 2006-07; 1,000 kms of access-controlled Expressways to be developed on the Design, Build, Finance and Operate (DBFO) model.



- ***Maritime Development:*** National Maritime Development Programme (NMDP) approved; work is in progress in 101 projects covering, inland waterways, shipping and ports including deepening of channels in Kandla, JNPT and Paradip; plan allocation for Department of Shipping increased by 37 per cent to Rs.735 crore; study to identify a suitable location for a new deep draft port in West Bengal to be carried out; National Institute of Port Management, Chennai, renamed as National Maritime Academy, to be upgraded into a Central University with regional campuses at Mumbai, Kolkata and Visakhapatnam.

- India Infrastructure Finance Company Limited incorporated; in-principle approval granted for to three road projects in Gujarat.

FINANCIAL SECTOR

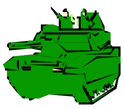
- ***Banking, Insurance and Pensions:*** net capital support to banking sector standing at Rs.22,808 crore, to be restructured to facilitate increased access of banks to additional resources for lending to the productive sectors; Bill on insurance to be introduced in 2006-07.

- ***Capital Market:*** limit on FII investment in Government securities to be increased from $ 1.75 billion to $ 2 billion and the limit on FII investment in corporate debt from $ 0.5 billion to $ 1.5 billion; ceiling on aggregate investment by mutual funds in overseas instruments to be raised from $ 1 billion to $ 2 billion with removal of requirement of 10 per cent reciprocal share holding; limited number of qualified Indian mutual funds to be allowed to invest, cumulatively up to $ 1 billion, in overseas exchange traded funds; an investor protection fund to be setup under the aegis of SEBI; RBI's anonymous electronic order matching trading module (NDS-OM) on its Negotiated Dealing System to be extended to qualified mutual funds, provident funds and pension funds; steps to be taken to create a single, unified exchange-traded market for corporate bonds.

OTHER PROPOSALS

- ***Research and Development:*** National Agricultural Innovation Project for research at frontiers of agricultural science to be launched in July, 2006; National S&T Entrepreneurship Board has setup Technology business Incubators, enabling concessions to be provided to incubatee-entrepreneurs.
- ***Institutions of Excellence:*** Universities of Calcutta, Mumbai and Madras to get a grant of Rs.50 crore each to mark the beginning of their 150th year celebrations, with another Rs.50 crore each to be given at the conclusion of the year; Punjab Agricultural University, Ludhiana. to get grant of Rs.100 crore; status of an autonomous National Institute to be accorded to Rajiv Gandhi Centre for Biotechnology, Tiruvananthapuram, Kerala.

- ***Skills Development:*** Rs.97 crore allocated for upgradation of ITIs; Skills Development Initiative (SDI) taken up through a PPP scheme with initial provision of Rs.10 crore.
- ***Backward Regions Grant Fund:*** Rs.1,156 disbursed so far in current year, Rs.5,000 crore allocated in 2006-07.
- ***Jammu and Kashmir:*** State Plan for 2006-07 fixed at Rs.2,300 crore; additionally Rs.848 crore provided for the J&K Reconstruction Plan, including Rs.230 crore for the Baglihar Project; special central Plan assistance of Rs.1,300 crore provided for reforms in the power sector.



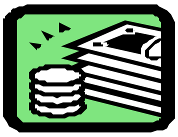
- ***Defence Expenditure:*** increased to Rs.89,000 crore including Rs.37,458 crore for capital expenditure.

- ***e-Governance:*** National e-Governance Plan to be approved shortly; 25 projects, in mission mode, to be launched in 2006-07.

- ***Celebrating History and Heritage:*** Rs.10 crore allocated for celebration of 150th anniversary of the First War of Indian Independence; National Gandhi Museum, Rajghat and the Kasturba Gandhi National Memorial Fund, Indore to be given Rs.5 crore each; Rs.5 crore for safeguarding of old art forms and oral traditions.

FISCAL CONSOLIDATION

- ***Twelfth Finance Commission:*** Rs.94,402 crore to be released as States' share in gross tax revenues in current year compared to Rs.78,595 crore in 2004-05; grants-in-aid to States are Rs.25,134 crore in RE 2005-06 against Rs.12,081 crore in 2004-05.



- ***Subsidies:*** consensus sought on the issue of subsidies.
- ***Gross Budgetary Support and Gross Fiscal Deficit:*** Centre's gross tax-GDP ratio: 9.2 per cent in 2003-04, 9.8 per cent in 2004-05, 10.5 per cent in 2005-06 (RE), 11.2 per cent in 2006-07 (BE); Gross Fiscal Deficit less than Gross Budgetary Support for Plan in 2004-05; revenue deficit for in 2005-06 to be 2.6 per cent and fiscal deficit 4.1 per cent.

BUDGET ESTIMATES FOR 2006-07

- ***Plan Expenditure:*** estimated at Rs.172,728 crore, up by 20.4 per cent; ***Non-Plan Expenditure:*** Rs.391,263 crore, up by 5.5 per cent.
- ***Revenue Deficit and Fiscal Deficit:*** revenue deficit estimated at Rs.84,727 crore, 2.1 per cent of the GDP; fiscal deficit estimated at Rs.148,686 crore, 3.8 per cent of the GDP.

TAX PROPOSALS

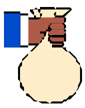
Indirect Taxes:

Customs

- peak rate for non-agricultural products reduced from 15 per cent to 12.5 per cent; duty on alloy steel and primary and secondary non-ferrous metals reduced from 10 per cent to 7.5 per cent; this will also be the rate of duty for ferro alloys; on steel melting scrap raised to 5 per cent and brought on part on par with primary steel;
- duty on mineral products reduced to 5 per cent, with a few exceptions.
- duty on ores and concentrates reduced from 5 per cent to 2 per cent.

- duty on refractories and on a number of materials for manufacture of refractories reduced to 7.5 per cent.
- duty to be reduced on basic inorganic chemicals from 15 per cent to 10 per cent; on basic cyclic and acyclic hydrocarbons and their derivatives to 5 per cent; on catalysts from 10 per cent to 7.5 per cent.
- duty to be reduced on major bulk plastics like PVC, LDPE and PP from 10 per cent to 5 per cent; on naptha for plastics to nil; on styrene, EDC and VCM which are raw materials for plastics to 2 per cent.
- reduction of customs duty on 10 anti-AIDS and 14 anti-cancer drugs to 5 per cent; on certain life saving drugs, kits and equipment from 15 per cent to 5 per cent; these drugs also exempt from excise duty and CVD.
- duty on packaging machines to be reduced from 15 per cent to 5 per cent.
- concessional project rate of 10 per cent to be extended to pipeline projects for transportation of natural gas, crude petroleum and petroleum products.
- CVD of 4 per cent to be imposed on all imports with a few exceptions; full credit to be allowed to manufacturers of excisable goods.
- Customs duty on vanaspati to be increased to 80 per cent.
- rates on clearances by EOUs to the Domestic Tariff Area (DTA) adjusted at 50 per cent of basic customs duty plus excise duty on like goods.
- reduction of: excise duty on all man-made fibre yarn and filament yarn from 16 per cent to 8 per cent; import duty on all man-made fibres and yarns from 15 per cent to 10 per cent; import duty on raw materials such as DMT, PTA and MEG from 15 per cent to 10 per cent; import duty on paraxylene to 2 per cent.

Excise



- with the intention to converge all rates at the CENVAT rate at 16 per cent; duty on aerated drinks and small cars to be reduced to 16 per cent.
- 8 per cent duty to be imposed on packaged software sold over the counter; customised software and software packages downloaded from the internet to be exempt; DVD Drives, Flash Drives and Combo Drives to be fully exempt from excise duty.
- condensed milk, ice cream, preparations of meat, fish and poultry, pectins, pasta and yeast to be fully exempt; duty on ready-to-eat packaged foods and instant food mixes, like dosa and idli mixes, to be reduced from 16 per cent to 8 per cent.

- vegetable tanning extracts, namely, quebracho and chestnut to be exempt from duty; duty on footwear with a retail sale price between Rs.250 and Rs.750 to be reduced from 16 per cent to 8 per cent.
- concessional rate of 8 per cent to be extended to all LPG stoves.
- duty on compact fluorescent lamps to be reduced from 16 per cent to 8 per cent.
- glassware to attract duty of 16 per cent on par with ceramicware and plasticware.
- excise duty on specified printing, writing and packing paper to be reduced from 16 per cent to 12 per cent.
- cess under the Oil Industries Development Act to be increased from Rs.1,800 per metric tonne to Rs.2,500 per MT.
- re-imposition of excise duty at 12 per cent on computers to enable domestic manufacturers to take CENVAT credit as well as to face competition from imports; price not to be impacted as duty to be eligible for full input tax credit,
- duty of 16 per cent to be levied on set top boxes with reduction in customs duty from 15 per cent to nil.
- increase in excise duty on cigarettes by about 5 per cent.
- excise and customs tariff exemptions that are end-use based or have outlived their utility or need certification or give rise to disputes being rescinded; exemption for the SSI sector will remain.

Service tax

- new services to be covered including ATM operations, maintenance and management; registrars, share transfer agents and bankers to an issue; sale of space or time, other than in the print media, for advertisements; sponsorship of events, other than sports events, by companies; international air travel excluding economy class passengers; container services on rail, excluding the railway freight charges; business support services; auctioneering; recovery agents; ship management services; travel on cruise ships; and public relations management services.
- coverage of certain services now subject to service tax to be expanded.
- leasing and hire purchase to be treated on par with loan transactions, interest and instalment of principal amount to be abated in calculating value of the service.

- proposal to set April 1, 2010 as the date for introducing national level Goods and Service Tax (GST); service tax rate increased from 10 per cent to 12 per cent as another step towards converge between service tax rate and the CENVAT rate; net impact likely to be very small in view of credit available for service tax or excise duty payable.

Direct Taxes

- no change in rates of personal income tax or corporate income tax; no new taxes are being imposed.
- one-by-six scheme will stand abolished.
- marginal revision in certain tax rates in the quest for equity-Minimum Alternate Tax (MAT) rate increased from 7.5 per cent of book profits to 10 per cent which is only one-third of the normal rate; long-term capital gains arising out of securities included in calculating book profits; period to take credit for MAT increased from five years to seven years.
- increase of 25 per cent, across the board, on all rates of STT.
- Section 80IA of the Income Tax Act applies to infrastructure facilitie; terminal date for developing an industrial park extended from March 31, 2006 to March 31, 2009; for the power sector, the date extended to March 31, 2010.
- investments in fixed deposits in scheduled banks for a term of not less than five years included in section 80C of the Income tax Act; limit of Rs.10,000 in respect of contribution to certain pension funds removed in section 80CCC subject to overall ceiling of Rs.100,000.
- definition of open-ended equity-oriented schemes of mutual funds in the Income tax Act aligned with the definition adopted by SEBI; open-ended equity-oriented schemes and close-ended equity-oriented schemes to be treated on par for exemption from dividend distribution tax.
- exemption under section 10(23G) removed.
- Primary Agricultural Credit Societies and Primary Cooperative Agricultural and Rural Development Banks to continue to be exempt from tax under section 80P of the Income Tax Act; all other cooperative banks excluded from the scope of that section.
- scope of section 54EC restricted to two institutions, viz., NHAI and REC; for NABARD, SIDBI and NHB, which are banks, route of zero coupon bonds to raise low cost funds already opened; if needed,

appropriate support to be provided to these institutions to enable them to access resources to fulfil their mandate effectively; benefit of section 54ED withdrawn with effect from April 1, 2006.

- anonymous or pseudonymous donations to wholly charitable institutions to be taxed at the highest marginal rate; such donations to partly religious and partly charitable institutions/trusts to be taxed only if the donation is specifically for an educational or medical purpose; such donations to wholly religious institutions and religious trusts not to be covered by the new provision.

- constituency allowances of Members of State Legislatures to be treated at par with constituency allowance received by Members of Parliament.

- Permanent Account Number (PAN) is the critical element in capturing incomes and expenditures; scrutiny of Annual Information Returns (AIR) on high-value transactions reveals that 60 per cent of the transactions are without quoting PAN; hence proposal to take power to- issue PAN *suo motu* in certain cases and to direct persons to apply for PAN in certain cases; in due course, more transactions to be notified for which quoting of PAN to be mandatory, a few more transactions to be prescribed to be reported in AIRs.

- Banking Cash Transaction Tax (BCTT) to continue for some more time until the AIR system is able to capture all significant financial transactions.

- Fringe Benefit Tax (FBT) introduced last year as a revenue raising measure; justified on the principles of horizontal equity and vertical equity; on review, following changes being proposed-
    - Value the benefit in the form of 'tour and travel' at 5 per cent instead of 20 per cent;
    - Value benefit in the form of 'hospitality' and 'use of hotel boarding and lodging facilities', in case of airline companies and shipping industry, at 5 per cent instead of 20 per cent;
    - Exclude expenses on free samples of medicines and of medical equipment distributed to doctors;
    - Exclude expenses incurred on brand ambassador and celebrity endorsement; and
    - Prescribe a threshold of Rs.100,000 under section 115WB(1)(c) so that only a contribution by an employer to an approved superannuation fund in excess of Rs.100,000 per year per employee to attract FBT. Under section 80C there is already exemption up to Rs.100,000 for contribution by an employee to an approved superannuation fund.

- ***Modernizing Tax Administration:*** The Departments of Income Tax and Customs and Central Excise to undergo Business Process Reengineering (BPR); nationwide networks to connect 745 income tax offices in 510 cities and 550 customs and central excise offices in 245 cities, creating national databases; national data centres, data warehousing facilities and disaster recovery sites being set up; jurisdiction-free filing of returns, online tracking of status of accounts and refunds of income tax to be possible; introduction of a risk management system and Electronic Data Interchange (EDI) in the Customs Department to reduce dwell time for cargo; E-payments of customs and excise duties to be possible; both Departments to have fully computerised networks by end 2006.
- a *statement on revenue foregone*, (tax expenditure statement), capturing the departures from the normal tax regime introduced.

VAT and CST:

- in order to moderate the price, LPG (domestic) included in the list of 'declared goods' under the CST Act.

NOTE