

# **Budget Speech**

## **Budget 2009-2010**

### **Speech of**

**Pranab Mukherjee**

*Minister of Finance*

**July 6, 2009**

**Madam Speaker,**

I rise to present the Budget for 2009-10.

2. Just 140 days back, I had the privilege to present the Interim Budget for 2009-10. It is a rare honour that I have been called upon to present the regular budget after the new Government assumed office.

3. The Congress-led UPA Government has come back to power with a renewed mandate. As Prime Minister, Dr. Manmohan Singh, said recently “It is a mandate for continuity, stability and prosperity. It is a mandate for inclusive growth and equitable development.” It is a mandate that we accept with humility and a firm resolve to do all that we can for the welfare of this nation.

4. I am deeply conscious of the faith reposed by the people in our government and the responsibilities that come with it. I am sensitive to the great challenge of rising expectations of a young India . It reflects a population that is restless, yet engaged and is ready to seize the opportunities that it is presented with. There are new and powerful reasons for us to create, facilitate and sustain those opportunities.

5. In the Interim Budget for 2009-10, I had stated that the new Government would need to anchor its policies for 2009-10, in a medium term perspective that would have to:

- (a) sustain a growth rate of at least 9 per cent per annum over an extended period of time;
- (b) strengthen the mechanisms for inclusive growth for creating about 12 million new work opportunities per year;

- (c) reduce the proportion of people living below poverty line to less than half from current levels by 2014;
- (d) ensure that Indian agriculture continues to grow at an annual rate of 4 per cent;
- (e) increase the investment in infrastructure to more than 9 per cent of GDP by 2014;
- (f) support Indian industry to meet the challenge of global competition and sustain the growth momentum in exports;
- (g) strengthen and improve the economic regulatory framework in the country;
- (h) expand the range and reach of social safety nets by providing direct assistance to vulnerable sections;
- (i) strengthen the delivery mechanism for primary health care facilities with a view to improve the preventive and curative health care in the country;
- (j) create a competitive, progressive and well regulated education system of global standards that meets the aspiration of all segments of the society; and
- (k) move towards providing energy security by pursuing an Integrated Energy Policy.

6. The Government recognizes the challenges that this task entails, particularly at a time when the world is still struggling with an unprecedented financial crisis and an economic slowdown that has also affected India . While we are determined to convert our words into deeds, Members would appreciate that a single Budget Speech cannot solve all our problems, nor is the Union Budget the only instrument to do so. Yet, it is an important means to share the vision of the Government, particularly as we begin a new term. I propose to do just that for the next hour or so, as I dwell on the challenges and outline the approach of the government in the short term and medium term perspectives.

7. The *first challenge* is to lead the economy back to the high GDP growth rate of 9 per cent per annum at the earliest. Growth of income is important in itself, but it is as important for the resources that it brings in. These resources provide us with the means to bridge the critical gaps that remain in our development efforts, particularly with regard to the welfare of the vulnerable segments of our population.

8. The *second challenge* is to deepen and broaden the agenda for inclusive development; and to ensure that no individual, community or region is denied the opportunity to participate in and benefit from the development process.

9. The *third challenge* is to re-energize government and improve delivery mechanisms. Our

institutions must provide high quality public services, security and the rule of law to all citizens with transparency and accountability.

### **Overview of the Economy**

**10.** Madam Speaker, at the time of the presentation of the Interim Budget, I had given a detailed analysis of the economic situation. Without repeating myself, I would like to highlight that the development course charted by the UPA Government in the last five years has been possible due to a step up in the growth rate of the economy and improved revenue buoyancy. The principal growth driver in this period has been private investment, which has been predominantly funded by domestic resources. During the year 2008-09, there has been a dip in the growth rate of GDP from an average of over 9 per cent in the previous three fiscal years to 6.7 per cent. It has affected the pace of job creation in certain sectors of the economy and the investment sentiments of the business community. It has also resulted in considerably lower revenue growth for the government. Another feature of the year 2008-09 was a sharp rise in the wholesale price index to nearly 13% in August 2008 and an equally sharp fall close to 0% in March 2009. While a detailed analysis of the developments has been presented in the Economic Survey-2008-09, tabled in both houses of Parliament last Thursday, I draw your attention to a few aspects.

**11.** The structure of India 's economy has changed rapidly in the last ten years. External trade and external capital flows are an important part of the economy and so is the contribution of the services sector to the GDP at well over 50 per cent. The share of merchandise trade (exports plus imports) as a proportion of GDP has more than doubled over the past decade to 38.9 per cent in 2008-09. Similarly, trade in goods and services taken together has also doubled to 47 per cent during this period. Gross capital flows rose to a peak of over 9 per cent of GDP in 2007-08 before falling in the wake of the global financial crisis. The significant increase in the inflow of foreign capital is important, not so much for bridging the domestic savings-investment gap, but for facilitating the intermediation of financial resources to meet the growing needs of the economy.

**12.** This growing integration of the Indian economy with the rest of the world has brought new opportunities and also new challenges. It has made the task of sustaining high growth more complex. Over the past month, we have critically evaluated Government's efforts at both short term economic recovery as well as medium term economic growth. The economic recovery and growth is a cooperative effort of the Central and State Governments. That is why, for the first time, I held a meeting with Finance Ministers of States as part of the preparations for this Budget. I intend to make

this an annual feature.

## **TOWARDS ECONOMIC REVIVAL**

### **Short-term measures**

13. To counter the negative fallout of the global slowdown on the Indian economy, the Government responded by providing three focused fiscal stimulus packages in the form of tax relief to boost demand and increased expenditure on public projects to create employment and public assets. The RBI took a number of monetary easing and liquidity enhancing measures to facilitate flow of funds from the financial system to meet the needs of productive sectors.

14. This fiscal accommodation led to an increase in fiscal deficit from 2.7 per cent in 2007-08 to 6.2 per cent of GDP in 2008-09. The difference between the actuals of 2007-08 and 2008-09 constituted the total fiscal stimulus. This fiscal stimulus at 3.5% of GDP at current market prices for 2008-09 amounts to Rs.1,86,000 crore.

15. These measures were effective in arresting the fall in growth rate of GDP in 2008-09 and we achieved a growth of 6.7 per cent. There are signs of revival in the domestic industry and the foreign investors have also returned to the Indian market in the last couple of months. It is possible that the two worst quarters since the global financial meltdown in September 2008 are behind us. While the global financial conditions have shown improvement over the recent months, uncertainties relating to the revival of the global economy remain. We cannot, therefore, afford to drop our guard. We have to continue our efforts to provide further stimulus to the economy.

16. Madam Speaker, what I unfold now are only the 'First steps'. It will be my endeavour to make the process of budget formulation more participatory and a continuous exercise.

### **Infrastructure Development**

17. To stimulate public investment in infrastructure, we had set up the India Infrastructure Finance Company Limited (IIFCL) as a special purpose vehicle for providing long term financial assistance to infrastructure projects. We will ensure that IIFCL is given greater flexibility to aggressively fulfil its mandate.

18. 'Takeout financing' is an accepted international practice of releasing long term funds for financing infrastructure projects. It can be used to effectively address the asset liability mismatch of commercial banks arising out of financing infrastructure projects and also to free up capital for

financing new projects. IIFCL would, in consultation with banks, evolve a 'takeout financing' scheme which could facilitate incremental lending to the infrastructure sector.

**19.** Government has had some success in attracting private investment in a wide range of infrastructure sectors such as telecommunications, power generation, airports, ports, roads and even in railways through public private partnerships ( PPP ). To ensure that infrastructure projects do not face financing difficulties arising from the current downturn, as I indicated in my Interim Budget Speech, the Government has decided that IIFCL will refinance 60 per cent of commercial bank loans for PPP projects in critical sectors over the next fifteen to eighteen months. The IIFCL and Banks are now in a position to support projects involving a total investment of Rs.100 thousand crore in infrastructure. Combined with the steps we are taking to increase public investment in infrastructure, this will provide a big boost to such investment.

**20.** The investment in infrastructure for the growth of economy is critical. I have urged my colleagues in the Central and State Governments to remove policy, regulatory and institutional bottlenecks for speedy implementation of infrastructure projects. I, on my part, will ensure that sufficient funds are made available for this sector.

#### *Highway and Railways*

**21.** The allocation during the current year to National Highways Authority of India (NHAI) for the National Highways Development Programme (NHDP) is being stepped up by 23 per cent over the 2008-09 (BE). I have also increased the allocation for the Railways from Rs.10,800 crore made in the Interim Budget for 2009-10 to Rs.15,800 crore.

#### *Urban Infrastructure*

**22.** The Jawaharlal Nehru National Urban Renewal Mission (JNNURM) has been an important instrument for refocusing the attention of the State governments on the importance of urban infrastructure. In recognition of the role of JNNURM, the allocation for this scheme is being stepped up by 87 per cent to Rs.12,887 crore in the current budget. To improve the lot of the urban poor, I propose to enhance the allocation for housing and provision of basic amenities to urban poor to Rs.3,973 crore in the current year's budget. This includes the provision for Rajiv Awas Yojana (RAY), a new scheme announced in the address of the President of India. This scheme, the parameters of which are being worked out, is intended to make the country slum free in the five year period.

#### *Brihan Mumbai Storm Water Drainage Project (BRIMSTOWA)*

23. To address the problem of flooding in Mumbai, Brihan Mumbai Storm Water Drainage Project (BRIMSTOWA) was initiated in 2007. The entire estimated cost of the project at Rs.1,200 crore is being funded through Central assistance. A sum of Rs.500 crore has been released for this project upto 2008-09. I have enhanced the provision for this project from Rs.200 crore in Interim BE to Rs.500 crore to expedite the completion of the project.

#### *Power*

24. The Accelerated Power Development and Reform Programme (APDRP) is an important scheme for reducing the gap between power demand and supply. I propose to increase the allocation for this scheme to Rs.2,080 crore, a steep increase of 160 per cent above the allocation in the BE of 2008-09.

#### *Gas*

25. With the recent find of natural gas in the KG Basin on the Eastern offshore of the country, the indigenous production of Natural Gas is set to double with natural gas emerging as an important source of energy. LNG infrastructure in the country is also being expanded. Government proposes to develop a blueprint for long distance gas highways leading to a National Gas Grid. This would facilitate transportation of gas across the length and breadth of the country.

#### *Assam Gas Cracker Project*

26. The Assam Gas Cracker Project sanctioned in April 2006 is being executed at a cost of Rs.5,461 crore. The capital subsidy of Rs.2,138 crore for the project is to be provided by the Central Government. The outlay for this project is being stepped up suitably.

### **Agricultural Development**

I now turn to Agricultural development.

27. Agriculture has been the mainstay of our economy with 60 per cent of our population deriving their sustenance from it. In the recent past, the sector has recorded a growth of about 4 per cent per annum with substantial increase in plan allocations and capital formation in the sector. Agriculture credit flow was Rs.2,87,000 crore in 2008-09. The target for agriculture credit flow for the year 2009-10 is being set at Rs.3,25,000 crore. To achieve this, I propose to continue the interest subvention scheme for short term crop loans to farmers for loans upto Rs.3 lakh per farmer at the interest rate of 7 per cent per annum. I am also happy to announce that, for this year, the Government shall pay an additional subvention of 1 per cent as an incentive to those farmers who repay their short term crop loans on schedule. Thus, the interest rate for these farmers will come down to 6 per cent per annum.

For this, I am making an additional Budget provision of Rs.411 crore over Interim BE.

#### *Debt Relief for farmers*

**28.** The one-time bank loan waiver of nearly Rs.71,000 crore to cover an estimated 40 million farmers was one of the major highlights of the last Budget. Under the Agricultural Debt Waiver and Debt Relief Scheme (2008), farmers having more than two hectares of land were given time upto 30th June, 2009 to pay 75% of their overdues. Due to the late arrival of monsoon, I propose to extend this period by six months upto 31st December, 2009 .

**29.** It is learnt that in some regions of Maharashtra , a large number of farmers had taken loans from private money lenders and the loan waiver scheme did not cover them. The matter requires special attention. To examine the matter in greater detail and suggest the future course of action, I propose to set up a Taskforce.

#### *Accelerated Irrigation Benefit Programme*

**30.** I propose to provide an additional Rs.1,000 crore over Interim BE for the Accelerated Irrigation Benefit Programme (AIBP), marking an increase of 75 per cent over the allocation in 2008-09(BE). The allocation for the Rashtriya Krishi Vikas Yojna (RKVY) is also being stepped up by 30 per cent over Budget Estimates of 2008-09.

#### **Restoring Export Growth**

**31.** Our exporters by virtue of their close links to the external sector have borne the brunt of the global economic crisis. It is, therefore, appropriate that we continue to provide all possible assistance to our exporters to help them overcome the short term disadvantages. More specifically:

- (a) An adjustment assistance scheme to provide enhanced Export Credit and Guarantee Corporation (ECGC) cover at 95 per cent to badly hit sectors had been initiated in December 2008 to mitigate the difficulties faced by the exporters. In view of the continuing contraction in exports, I propose to extend the benefits of this scheme up to March 2010.
- (b) The Market Development Assistance Scheme provides support to exporters in developing new markets. With many traditional markets still under financial stress, greater effort is required to identify and develop new markets. I propose to enhance the allocation for this scheme by 148% over BE 2008-09 to Rs.124 crore.
- (c) With a view to insulating the employment - oriented export sectors from the global

meltdown, Government had provided an interest subvention of 2 per cent on pre-shipment credit for seven such sectors. These sectors are textiles including handlooms, handicrafts, carpets, leather, gems and jewellery, marine products and small and medium exporters. I propose to extend the interest subvention beyond the current deadline of September 30, 2009 to March 31, 2010 .

- (d) Micro, Small and Medium Enterprises (MSMEs) have been affected by the slowdown in exports and the indirect effect of the global crisis on domestic demand. To support this sector, I propose to facilitate the flow of credit at reasonable rates, by providing a special fund out of Rural Infrastructure Development Fund (RIDF) to Small Industries Development Bank (SIDBI). This fund of Rs.4,000 crore will incentivise Banks and State Finance Corporations (SFCs) to lend to Micro and Small Enterprises (MSEs) by refinancing 50 per cent of incremental lending to MSEs during the current financial year.
- (e) In February, 2009 the Print Media was given a stimulus package comprising waiver of 15% agency commission on DAVP advertisements and a 10% increase in the DAVP rates to be paid as a ‘special relief’ subject to documentary proof of loss of revenue in non-governmental advertisements. Since Print Media is still passing through difficult times, I have decided to extend the stimulus package for another six months from 30th June, 2009 to 31st December, 2009 .

### **Medium-term sustainability**

**32.** The short term fiscal stimulus has to be balanced against long term prudence and fiscal sustainability objectives. To quote **Kautilya**, *“In the interest of the prosperity of the country, a King shall be diligent in foreseeing the possibility of calamities, try to avert them before they arise, overcome those which happen, remove all obstructions to economic activity and prevent loss of revenue to the state”*. I intend to take **Kautilya’s** advice and return to the FRBM target for fiscal deficit at the earliest and as soon as the negative effects of the global crisis on the Indian economy have been overcome. On the medium term fiscal perspective, I await the recommendations of the 13th Finance Commission.

**33.** To bring the fiscal deficit under control, we have to initiate institutional reform measures during the current year itself. This is essential for maintaining a stable balance of payments, moderate interest rates and steady flow of external capital for corporate investment. These measures have to encompass all aspects of the budget such as subsidies, taxes, expenditure and disinvestment.



### *Fertilizer subsidy*

**34.** In the context of the nation's food security, the declining response of agricultural productivity to increased fertilizer usage in the country is a matter of concern. To ensure balanced application of fertilizers, the Government intends to move towards a nutrient based subsidy regime instead of the current product pricing regime. It will lead to availability of innovative fertilizer products in the market at reasonable prices. This unshackling of the fertilizer manufacturing sector is expected to attract fresh investments in this sector. In due course it is also intended to move to a system of direct transfer of subsidy to the farmers.

### *Petroleum and Diesel pricing policy*

**35.** Madam Speaker, Honourable Members are aware that global prices of oil and petroleum products had shot up to unprecedented levels in 2008-09. Most oil importing countries, including our neighbours, adjusted their domestic prices to reflect these global changes. Though prices have declined since then, they are already about double of the lows reached in the wake of the global financial crisis. It is important to recognise that, with almost three-quarters of our oil consumption met through imports, domestic prices of petrol and diesel have to be broadly in sync with global prices of these items. Government will set up an expert group to advise on a viable and sustainable system of pricing petroleum products. Details will be announced by my colleague, the Minister of Petroleum and Natural Gas.

### *Taxation*

**36.** It is time that we complete the process that was started in 1991 for building a trust based, simple, neutral, tax system with almost no exemptions and low rates designed to promote voluntary compliance. The Income Tax Return Forms should be simple and user-friendly. I have asked the Department to work on SARAL-II forms for early introduction. We need a tax system which generates revenues on a sustained basis without use of coercive tax collection methods at the end of each year to meet targets. It is my intention to make a modest start in this direction in the current year and ensure that the process is completed in the next four years. At the end of this process, I hope the Finance Minister can credibly say that our tax collectors are like honey bees collecting nectar from the flowers without disturbing them, but spreading their pollen so that all flowers can thrive and bear fruit.

### *People's ownership of PSUs*

**37.** The Public Sector Undertakings are the wealth of the nation, and part of this wealth should rest in the hands of the people. While retaining at least 51 per cent Government equity in our enterprises, I

propose to encourage people's participation in our disinvestment programme. Here, I must state clearly that public sector enterprises such as banks and insurance companies will remain in the public sector and will be given all support, including capital infusion, to grow and remain competitive.

#### *Financial sector*

**38.** The financial sector is the life blood of any economy. Our Government's approach to the banking and financial sector has been to ensure robust oversight and regulation while expanding financial access and deepening markets. The merit of this balanced approach has been borne out in the recent experience, as the turbulence in the world financial markets has left the Indian banking and financial sector relatively unaffected. Never before has Indira Gandhi's bold decision to nationalise our banking system exactly 40 years ago - on 14th of July, 1969 - appeared as wise and visionary as it has over the past few months. Her approach continues to be our inspiration even as we introduce competition and new technology in this sector.

**39.** The average public float in Indian listed companies is less than 15 per cent. Deep non-manipulable markets require larger and diversified public shareholdings. This requirement should be uniformly applied to the private sector as well as listed public sector companies. I propose to raise, in a phased manner, the threshold for non-promoter public shareholding for all listed companies.

**40.** For a country like ours, with significant sections of unbanked population and regions, financial inclusion is vital for sustaining long term equitable development. As part of the financial inclusion drive, scheduled commercial banks have been opening 'no frills' accounts either with 'nil' or very low minimum balances. So far, these banks have opened 3.3 crore such accounts. The RBI has announced a further relaxation in its Branch Authorisation Policy. Scheduled Commercial Banks are now allowed to set up off-site ATMs without prior approval, subject to reporting.

**41.** Despite the expansion of banking network in the country, there are still some areas that remain under-banked or unbanked. A sub-committee of State Level Bankers Committee ( SLB C) will identify such areas and formulate an action plan for providing banking facilities to all these areas in the next 3 years. I propose to set aside Rs.100 crore during the current year as one-time grant-in-aid to ensure provision of at least one centre/Point of Sales (POS) for banking services in each of the unbanked blocks in the country.

**42.** The Government has established Competition Commission of India, an autonomous regulatory body to promote and sustain competition in markets, protect interests of consumers and to prevent practices having adverse effect on competition. An Appellate body headed by a retired judge of the

Supreme Court has also been constituted.

43. The benefits of competition should now come to more sectors and their users and consumers. Now is the time for us to work on these aspects to eliminate supply bottlenecks, enhance productivity, reduce costs and improve quality of goods and services supplied to consumers.

#### *Investment environment*

44. Private sector investment has been affected by the global macro economic conditions. Our Government is committed to creating a facilitating environment in which a competitive private sector can thrive and play its rightful role in nation's economic development. India's high growth of 8.5% per annum from 2004 to 2008 was fuelled in very large part by private investment. I look forward to working closely with industry and our vibrant entrepreneurial community to address their outstanding concerns.

### **TOWARDS INCLUSIVE DEVELOPMENT**

45. Madam Speaker, the UPA government has gone for a paradigm shift for making the development process more inclusive. It involves creating entitlements backed by legal guarantee to provide basic amenities and opportunities for livelihood to vulnerable sections. 'Aam Admi' is now the focus of all our programmes and schemes.

#### *National Rural Employment Guarantee Scheme (NREGS)*

46. (i) It is widely acknowledged that the National Rural Employment Guarantee Act, (NREGA) first implemented in February 2006, has been a magnificent success. During 2008-09, NREGA provided employment opportunities for more than 4.47 crore households as against 3.39 crore households covered in 2007-08. We are committed to providing a real wage of Rs.100 a day as an entitlement under the NREGA. To increase the productivity of assets and resources under NREGA, convergence with other schemes relating to agriculture, forests, water resources, land resources and rural roads is being initiated. In the first stage, a total of 115 pilot districts have been selected for such convergence. Details of these measures and convergence guidelines will be announced by my colleague, the Minister of Rural Development. I propose an allocation of Rs.39,100 crore for the year 2009-10 for NREGA which marks an increase of 144% over 2008-09 Budget Estimates.

#### *National Food Security Act (NFSA)*

(ii) I am happy to announce that the work on National Food Security Act has begun in right earnest. This will ensure that every family living below the poverty line in rural or urban areas will be

entitled by law to 25 kilos of rice or wheat per month at Rs.3 a kilo. The Government proposes to put the draft Food Security Bill on the website of the Department of Food and Public Distribution for public debate and consultations very soon.

### *Bharat Nirman*

(iii) Bharat Nirman with its six schemes is an important initiative for bridging the gap between the rural and urban areas and improving the quality of life of people, particularly the poor, in the rural areas. I propose to step up the allocations for Bharat Nirman by 45 per cent in 2009-10 over the BE of 2008-09. The Pradhan Mantri Gram Sadak Yojana (PMGSY) is one of the most successful programmes under Bharat Nirman. I propose to step up the allocation for this programme by 59% over BE 2008-09 to Rs.12,000 crore. I also propose to allocate Rs.7,000 crore to Rajiv Gandhi Grameen Viduytikaran Yojana (RGGVY) which represents a 27 per cent increase over 2008-09 (BE).

(iv) The allocation for the Indira Awaas Yojana ( IAY) is proposed to be increased by 63 per cent to Rs.8,800 crore in Budget Estimates 2009-10. To broaden the pace of rural housing, I propose to allocate, from the shortfall in the priority sector lending of commercial banks, a sum of Rs.2,000 crore for Rural Housing Fund in the National Housing Bank (NHB). This will boost the resource base of NHB for their refinance operations in rural housing sector.

### *Pradhan Mantri Adarsh Gram Yojana (PMAGY)*

(v) There are about 44,000 villages in which the population of Scheduled castes is above 50 per cent. A new scheme called Pradhan Mantri Adarsh Gram Yojana (*PMAGY*) is being launched this year on a pilot basis, for the integrated development of 1000 such villages. I propose an allocation of Rs.100 crore for this scheme. Each village would be able to avail gap funding of Rs.10 lakh over and above the allocations under Rural Development and Poverty Alleviation Schemes. On successful implementation of the pilot phase, the Yojana would be extended in coming years.

### **Empowerment of Weaker Sections**

47. *The Swarna Jayanti Gram Swarozgar Yojna (SGSY)* is being restructured as the National Rural Livelihood Mission to make it universal in application, focused in approach and time bound for poverty eradication by 2014-15. Stress will be laid on the formation of women Self Help Groups (SHGs). Apart from providing capital subsidy at an enhanced rate, it is also proposed to provide interest subsidy to poor households for loans upto Rs. one lakh from banks.

48. *The Women's Self Help Group* movement is bringing about a profound transformation in rural

areas. There are today over 22 lakh such groups linked with banks. Our objective is to enrol at least 50% of all rural women in India as members of SHGs over the next five years and link these SHGs to banks.

**49.** *The Rashtriya Mahila Kosh* has been working towards the facilitation of credit support or micro finance to poor women and has developed a number of innovative schemes for their benefit. In recognition of its role as an instrument of socio-economic change and development, the corpus of the Kosh, which at present is Rs.100 crore, would be raised to Rs.500 crore, over the next few years.

#### *Female literacy*

**50.** The low level of female literacy continues to be a matter of grave concern. It has, therefore, been decided to launch a National Mission for Female Literacy, with focus on minorities, SC, ST and other marginalised groups. The aim will be to reduce by half, the current level of female illiteracy, in three years.

#### *Integrated Child Development Services*

**51.** Government is committed to universalisation of the Integrated Child Development Services (ICDS) Scheme in the country. By March 2012, all services under ICDS would be extended, with quality, to every child under the age of six.

#### *Student Loans to Weaker Sections*

**52.** To enable students from economically weaker sections to access higher education, it is proposed to introduce a scheme to provide them full interest subsidy during the period of moratorium. It will cover loans taken by such students from scheduled banks to pursue any of the approved courses of study, in technical and professional streams, from recognised institutions in India . It is estimated that over 5 lakh students would avail of this benefit.

#### *Welfare of Minorities*

**53.** The Plan outlay of Ministry of Minority Affairs has been enhanced from Rs.1,000 crore in BE 2008-09 to Rs.1,740 crore in 2009-10, registering an increase of 74%. This includes Rs.990 crore for Multi-Sectoral Development Programme for Minorities in selected minority concentration districts, Grants-in-aid to Maulana Azad Education Foundation which is almost doubled, and provisions for National Minorities Development and Finance Corporation and Pre-Matric and Post-Matric Scholarships for Minorities. Allocations have also been made for the new schemes of National Fellowship for Students from the Minority Community and Grants-in-aid to Central Wakf Council for

computerization of records of State Wakf Boards.

**54.** Aligarh Muslim University has decided to establish its campuses at Murshidabad in West Bengal and Malappuram in Kerala. I propose to make an allocation of Rs.25 crore each for these two campuses.

#### *Welfare of workers in the unorganised sector*

**55.** The unorganised or informal sector of our economy accounts for 92% of the employment and absorbs bulk of the annual increase in our labour force. The Unorganised Workers Social Security Bill, 2007 has now been passed by both Houses of Parliament. I have already initiated action to ensure that social security schemes for occupations like weavers, fishermen and women, toddy tappers, leather and handicraft workers, plantation labour, construction labour, mine workers, bidi workers, and rikshaw pullers are implemented at the earliest. Necessary financial allocations will be made for these schemes.

#### *Employment Exchanges*

**56.** I propose to launch a new project for modernisation of the Employment Exchanges in public private partnership so that a job seeker can register on-line from anywhere and approach any employment exchange. Under the project, a national web portal with common software will be developed. This will contain all the data regarding availability of skilled persons on the one hand and requirements of skilled persons by the industry on the other. It will help youth get placed and enable industry to procure required skills on real time basis.

#### *Handlooms*

**57.** In the last Budget two mega handloom clusters at Varanasi and Sibsagar and two mega powerloom clusters at Erode and Bhiwandi were approved. They are under successful implementation. I propose to add one handloom mega cluster each in West Bengal and Tamil Nadu and one powerloom mega cluster in Rajasthan. These will help preserve the magnificent textile traditions in West Bengal and Tamil Nadu and generate thousands of jobs in Rajasthan. In addition, I propose to add new mega clusters for Carpets in Srinagar (J&K) and Mirzapur (UP).

#### *Health*

**58.** *The National Rural Health Mission* is an essential instrument for achieving our goal of Health for all. I propose an increase of Rs.2,057 crore over and above Rs.12,070 crore provided in the Interim Budget.

**59.** *Rashtriya Swasthya Bima Yojana (RSBY)* was operationalised last year. The initial response

has been very good. More than 46 lakh BPL families in eighteen States and UTs have been issued biometric smart cards. This scheme empowers poor families by giving them freedom of choice for using health care services from an extensive list of hospitals including private hospitals. Government proposes to bring all BPL families under this scheme. An amount of Rs.350 crore, marking 40% increase over the previous allocation, is being provided in 2009-10 Budget Estimates.

#### *Environment and Climate Change*

**60.** The National Action Plan on Climate Change unveiled last year, outlines our strategy to adapt to Climate Change and enhance the ecological sustainability of our development path. Following this, eight national missions representing a multi-pronged, long term and integrated approach are being launched. I propose to provide necessary funds for these missions.

**61.** Our government has already set up a 'National Ganga River Basin Authority' (NGRBA). I propose increasing the budgetary outlay for the National River and Lake Conservation Plans to Rs.562 crore in 2009-10 from Rs.335 crore in 2008-09.

**62.** I propose to make a special one-time grant of Rs.100 crore to the Indian Council of Forestry Research and Education, Dehradun in recognition of its excellence in the field of research, education and extension. I also propose an allocation of Rs.15 crore each for the Botanical Survey of India and Zoological Survey of India. An additional amount of Rs.15 crore is being allocated to Geological Survey of India.

### **TOWARDS BUILDING ACCOUNTABLE INSTITUTIONS**

#### *Improving delivery of public services*

**63.** As substantial resources, both public and private, are mobilized to fuel the growth of the economy and make it more inclusive in character, efficiency of delivery must become the focus of government programmes. The enactment of the Right to Information Act at the Centre and in many states has been an important and successful step in this direction, ushering in greater transparency and accountability in the public decision-making process.

**64.** The setting up of the Unique Identification Authority of India (UIDAI) is a major step in improving governance with regard to delivery of public services. This project is very close to my heart. I am happy to note that this project also marks the beginning of an era where the top private sector talent in India steps forward to take the responsibility for implementing projects of vital national importance. The UIDAI will set up an online data base with identity and biometric details of Indian

residents and provide enrolment and verification services across the country. The first set of unique identity numbers will be rolled out in 12 to 18 months. I have proposed a provision of Rs.120 crore for this project.

#### *National Security*

**65.** For modernisation of Police force in the States, an additional amount of Rs.430 crore is being proposed, over and above the provisions in the Interim Budget. The Government has also sanctioned special risk/hardship allowances to the personnel of Para Military Forces at par with Defence forces. Provisions for payment of these allowances are also being proposed in the Budget.

**66.** For strengthening Border Management, an additional amount of Rs.2,284 crore, over and above the provision in the Interim Budget, is being provided for construction of fences, roads, flood-lights on the international borders.

**67.** Significant augmentation in the strength of para-military forces is being done. This calls for more investment in creating the necessary infrastructure, particularly in the area of housing. The Government, therefore, proposes to launch a massive programme of housing to create 1 lakh dwelling units for Central Para-Military Forces personnel. This will not only contribute to the morale of the forces, but will also enable leveraging of government's annual budgetary resources and create an innovative financing model.

#### *One Rank One Pension for Ex-Servicemen (OROP)*

**68.** Our country owes a deep debt of gratitude to our valiant ex-Servicemen. The Committee headed by the Cabinet Secretary on OROP has submitted its report and the recommendations of the Committee have been accepted. On the basis of these recommendations, the Government has decided to substantially improve the pension of pre 1.1.2006 defence pensioners below officer rank (PBOR) and bring pre 10.10.1997 pensioners on par with post 10.10.1997 pensioners. Both these decisions will be implemented from 1st July 2009 resulting in enhanced pension for more than 12 lakh jawans and JCOs. These measures will cost the exchequer more than Rs.2,100 crore annually. Certain pension benefits being extended to war wounded and other disabled pensioners are also being liberalised.

#### *Education*

**69.** The demographic advantage India has in terms of a large percentage of young population needs to be converted into a dynamic economic advantage by providing them the right education and skills. The provision for the scheme, '*Mission in Education through ICT,*' has been substantially increased to



Rs.900 crore. Similarly, the provision for setting up and up-gradation of Polytechnics under the Skill Development Mission has been increased to Rs.495 crore. The government shall take forward its intent of having one Central University in each uncovered State and for this purpose I am allocating Rs.827 crore. I am also allocating Rs.2,113 crore for IITs and NITs, which includes a provision of Rs.450 crore for new IITs and NITs. The overall Plan budget for higher education is proposed to be increased by Rs.2,000 crore over Interim BE.

**70.** Union Territory of Chandigarh is the capital of Punjab and Haryana. The facilities at Punjab University , Chandigarh , need to be improved. I, therefore, propose to make an allocation of Rs.50 crore for this university. To enable the Union Territory Administration to provide better infrastructure to the people, I propose to suitably enhance the Plan allocation for Chandigarh during the current financial year.

#### *Commonwealth Games 2010*

**71.** The Commonwealth Games present the country with an opportunity to showcase our potential as an emerging Asian Power. I propose to substantially enhance the allocations for the Commonwealth Games from Rs.2,112 crore in the Interim Budget to Rs.3,472 crore in the Budget for 2009-10.

**72.** Madam Speaker, the Government is committed to ensure that *Sri Lankan Tamils* enjoy their rights and legitimate aspirations within the territorial sovereignty and framework of Sri Lanka 's Constitution. The Ministry of External Affairs is working closely with the Sri Lankan Government in this regard. I propose to allocate Rs.500 crore for the rehabilitation of the internally displaced persons and reconstruction of the northern and eastern areas of Sri Lanka .

**73.** As Honourable Members are aware, *Cyclone Aila* struck the coast of West Bengal in the last week of May 2009. Extensive damage was caused to roads, houses and infrastructure. While immediate interim relief has been provided from the Calamity Relief Fund (CRF), it is proposed to draw up a programme for rebuilding the damaged infrastructure. For this purpose, I propose to allocate Rs.1,000 crore.

#### **BUDGET ESTIMATES 2009-10**

Madam Speaker, now I turn to the Budget Estimates for 2009-10.

**74.** The Budget Estimates 2009-10 provide for a total expenditure of Rs.10,20,838 crore consisting of Rs.6,95,689 crore towards Non Plan and Rs.3,25,149 crore towards Plan expenditure. The increase in Non Plan expenditure over BE 2008-09 is 37% whereas the increase in Plan expenditure is 34%. The

total increase in expenditure in 2009-10 over BE 2008-09 is 36%.

**75.** The increase in Non Plan expenditure is mainly on account of the implementation of the Sixth Central Pay Commission recommendations, increased food subsidy and higher interest payment arising out of the larger fiscal deficit in 2008-09. Interest payments are estimated at Rs.2,25,511 crore constituting about 36% of Non Plan revenue expenditure in BE 2009-10. The total provision for subsidies are up from Rs.71,431 crore in BE 2008-09 to Rs.1,11,276 crore in BE 2009-10. The outlay on Defence has gone up from Rs.1,05,600 crore in BE 2008-09 to Rs.1,41,703 crore in BE 2009-10.

**76.** Honourable Members may recall that while presenting the Interim Budget 2009-10, I had stated that the Plan expenditure for 2009-10 may have to be increased further as a part of counter-cyclical measures to minimise the impact of global recession and economic slowdown. Against the backdrop of limited fiscal space because of reduction in CENVAT and Service Tax rates, Government have taken a conscious and bold decision to enhance the Gross Budgetary Support (GBS) for the Annual Plan 2009-10 by Rs.40,000 crore over Interim Budget 2009-10. Bulk of this enhanced GBS is directed towards public investment in infrastructure with special emphasis on rural infrastructure, raising growth potential and leading to income generation. Besides, the State Governments will be permitted to borrow additional 0.5% of their GSDP by relaxing the fiscal deficit target under FRBM from 3.5% to 4% of their GSDP. This will enable the State Governments to raise additional open market loans of about Rs.21,000 crore in the current year. In other words, the total additionality in Plan expenditure by Centre and the States put together would be Rs.61,000 crore over Interim Budget. I do believe that this fiscal expansion will go a long way in reversing the impact of economic slowdown and accelerate our growth revival in the medium term.

**77.** Madam Speaker, given the possibility of the economic downturn persisting in the current year, the gross tax receipts are budgeted at Rs.6,41,079 crore in BE 2009-10, compared to Rs.6,87,715 crore in BE 2008-09. The non tax revenue receipts are, however, likely to be better and are estimated at Rs.1,40,279 crore in BE 2009-10 compared to Rs.95,785 crore in BE 2008-09. The revenue deficit as a percentage of GDP is projected at 4.8% compared to 1% in BE 2008-09 and 4.6% as per provisional accounts of 2008-09. The fiscal deficit as a percentage of GDP is projected at 6.8% compared to 2.5% in BE 2008-09 and 6.2% as per provisional accounts 2008-09. This level of deficit is a matter of concern and Government will address this issue in right earnest to come back to the path of fiscal consolidation at the earliest.

**78.** Madam Speaker, before I turn to my tax proposals, I cannot resist the temptation of re-visiting

Kautilya. He said and I quote, “Just as one plucks fruits from a garden as they ripen, so shall a King have revenue collected as it becomes due. Just as one does not collect unripe fruits, he shall avoid taking wealth that is not due because that will make the people angry and spoil the very sources of revenue.”

## **PART - B**

### **TAX PROPOSALS**

**79.** Madam Speaker, I shall now present my tax proposals.

**80.** As the House is aware, the thrust of reforms over the last few years, including the previous term of this Government, has been to improve the efficiency and equity of our tax system. This is sought to be achieved by eliminating distortions in the tax structure, introducing moderate levels of taxation and expanding the base. These policy changes have been accompanied by requisite re-engineering of key business processes coupled with automation, both for direct and indirect taxes. On the direct tax side, a recent initiative for further improving efficiency is the setting up of a Centralized Processing Centre (CPC) at Bengaluru where all electronically filed returns, and paper returns filed in entire Karnataka, will be processed.

**81.** These tax reform initiatives have produced impressive results. The Centre's Tax- GDP ratio has increased to 11.5 per cent in 2008-09 from a low of 9.2 per cent in 2003-04. The healthy growth in tax revenues over the last five years is essentially attributable to growth in direct taxes. Further, the share of direct taxes in the Centre's tax revenues has increased to 56 per cent in 2008-09 from 41 per cent in 2003-04, reflecting a sharp improvement in the equity of our tax system. The Government is committed to furthering this process of tax reform.

**82.** In the course of preparation of this budget, I have had the opportunity to interact with large number of stakeholders and receive valuable inputs. Most suggestions were for structural changes in the tax system. Tax reform, like all reforms, is a process and not an event. Therefore, I propose to pursue structural changes in direct taxes by releasing the new Direct Taxes Code within the next 45 days and in indirect taxes by accelerating the process for the smooth introduction of the Goods and Services Tax (GST) with effect from 1st April, 2010 .

**83.** The Direct Taxes Code, along with a Discussion Paper, will be released to the public for debate. Based on the inputs received, the Government will finalise the Direct Taxes Code Bill for

introduction in this House sometime during the Winter Session.

**84.** To further enhance efficiency in tax administration, I intend to merge the two Authorities for Advance Rulings on Direct and Indirect Taxes by amending the relevant Acts. This will enable the Authority for Advance Rulings set up under Section 245-O of the Income Tax Act, 1961 to also function as the Authority for Advance Rulings for Indirect Taxes.

**85.** I have been informed that the Empowered Committee of State Finance Ministers has made considerable progress in preparing the roadmap and the design of the GST. Officials from the Central Government have also been associated in this exercise. I am glad to inform the House that, through their collaborative efforts, they have reached an agreement on the basic structure in keeping with the principles of fiscal federalism enshrined in the Constitution. I compliment the Empowered Committee of State Finance Ministers for their untiring efforts. The broad contour of the GST Model is that it will be a dual GST comprising of a Central GST and a State GST. The Centre and the States will each legislate, levy and administer the Central GST and State GST, respectively. I will reinforce the Central Government's catalytic role to facilitate the introduction of GST by 1st April, 2010 after due consultations with all stakeholders.

## DIRECT TAXES

**86.** I shall now deal with direct taxes.

**87.** Madam Speaker, there have been demands by the corporate sector for reduction in tax rates. However, tax rates are determined by the size of the tax base; if the tax base is higher, the tax rates can be lower. The Income Tax Act is riddled with a plethora of tax exemptions which substantially erode the tax base. The extent of this erosion is presented to this House in the form of a Revenue Foregone Statement. The growth in the direct tax revenue foregone is relatively higher than the growth in the direct tax revenues. Accordingly, I do not propose to make any change in the Corporate Tax rates.

**88.** With a view to providing interim relief to small and marginal taxpayers and senior citizens, I propose to increase the personal income tax exemption limit by Rs.15,000 from Rs.2.25 lakh to Rs.2.40 lakh for senior citizens. Similarly I also propose to raise the exemption limit by Rs.10,000 from Rs.1.80 lakh to Rs.1.90 lakh for women tax payers and by Rs.10,000 from Rs.1.50 lakh to Rs.1.60 lakh for all other categories of individual taxpayers. Further, I also propose to increase the deduction under section 80-DD in respect of maintenance, including medical treatment, of a dependent who is a person with severe disability to Rs.1 lakh from the present limit of Rs.75,000.

**89.** In the past, surcharges on direct taxes have generally been levied to meet the revenue needs arising from natural calamities. The Government has set up the National Calamity Contingency Fund to build up resources to meet emergency situations. As a corollary, surcharge on direct taxes should be removed. However, this has to be balanced with the revenue needs of the Government. Therefore, in the first instance, I propose to phase out the surcharge on various direct taxes by eliminating the surcharge of 10 per cent on personal income tax.

**90.** Deduction in respect of export profits is available under sections 10A and 10B of the Income-tax Act. The deduction under these sections would not be available beyond the financial year 2009-2010. In order to tide over the slowdown in exports, I propose to extend the sun-set clauses for these tax holidays by one more year i.e. for the financial year 2010-11.

**91.** The Finance Act, 2005 introduced the Fringe Benefit Tax on the value of certain fringe benefits provided by employers to their employees. This tax has been perceived as imposing considerable compliance burden. Empathising with these sentiments, I propose to abolish the Fringe Benefit Tax.

**92.** The competitive ability of an economy rests on its progress in the area of Research and Development (R&D). In order to incentivise the corporate sector to undertake R&D work, I propose to extend the scope of the current provision of weighted deduction of 150% on expenditure incurred on in-house R&D to all manufacturing businesses except for a small negative list.

**93.** Under the present scheme of the Income Tax Act, tax exemptions are largely profit-linked. Such incentives are inherently inefficient and liable to misuse. Therefore, it is proposed to incentivise businesses by providing investment-linked tax exemptions. To begin with, I propose to extend investment-linked tax incentives to the businesses of setting up and operating 'cold chain', warehousing facilities for storing agricultural produce and the business of laying and operating cross country natural gas or crude or petroleum oil pipeline network for distribution on common carrier principle. Under this method, all capital expenditure, other than expenditure on land, goodwill and financial instruments will be fully allowable as deduction.

**94.** Minimum Alternate Tax (MAT) was introduced to address inequity in taxation of corporate taxpayers. In the quest for greater equity, I propose to increase the rate of MAT to 15 per cent of book profits from the present rate of 10 per cent. However, to grant relief to corporate taxpayers, I also propose to extend the period allowed to carry forward the tax credit under MAT from seven years to ten years.

**95.** The New Pension System (NPS) is an important milestone in the development of a sustainable, efficient, voluntary and defined contribution pension system in India . While the NPS will continue to be subjected to the Exempt-Exempt-Taxed (EET) method of tax treatment of savings, it is proposed to provide necessary fiscal support to the NPS for the establishment of this much needed social security system. Accordingly, I propose to exempt the income of the NPS Trust from income tax and any dividend paid to this Trust from Dividend Distribution Tax. Similarly, all purchase and sale of equity shares and derivatives by the NPS Trust will also be exempt from the Securities Transaction Tax. I also propose to enable self employed persons to participate in the NPS and avail of the tax benefits available thereto.

**96.** In order to further improve the investment climate in the country, we need to facilitate the resolution of tax disputes faced by foreign companies within a reasonable time frame. This is particularly relevant for such companies in the Information Technology (IT) sector. I, therefore, propose to create an alternative dispute resolution mechanism within the Income Tax Department for the resolution of transfer pricing disputes. To reduce the impact of judgemental errors in determining transfer price in international transactions, it is proposed to empower the Central Board of Direct Taxes (CBDT) to formulate ‘safe harbour’ rules.

**97.** The Finance Act, 2008 introduced the Commodity Transaction Tax (CTT) to be levied on taxable commodities transactions entered in a recognized association. The Prime Minister’s Economic Advisory Council has recommended abolition of the CTT. I, therefore, propose to abolish the Commodity Transaction Tax.

**98.** The House will agree that it is desirable to bring about transparency in the funding of political parties in the country. With a view to reforming the system of funding of political parties, I propose to provide that donations to electoral trusts shall be allowed as a 100 per cent deduction in the computation of the income of the donor. For this purpose, Electoral Trusts will be such trusts as are set up as pass-through vehicles for routing the donations to political parties and are approved by CBDT.

**99.** Section 80E of the Income-tax Act provides for a deduction in respect of interest on loans taken for pursuing higher education in specified fields of study. I propose to extend the scope of this provision to cover all fields of study, including vocational studies, pursued after completion of schooling.

**100.** Anonymous donations to charitable institutions are presently liable to tax so as to prevent

unaccounted money being routed to such entities in the garb of anonymous donations. However, some organisations are facing genuine problems in complying with the procedural requirements. In order to mitigate the practical difficulties being faced by such charitable organisations, I propose to grant relief to such organisations by not taxing anonymous donations received to the extent of 5 per cent of their total income or a sum of Rs.1 lakh, whichever is higher.

**101.** To facilitate the business operations of all small taxpayers and reduce their compliance burden, I propose to expand the scope of presumptive taxation to all small businesses with a turnover upto Rs.40 lakh. All such taxpayers will have the option to declare their income from business at the rate of 8 per cent of their turnover and simultaneously enjoy exemption from the compliance burden of maintaining books of accounts. As a procedural simplification, I also propose to allow them to pay their entire tax liability from business at the time of filing their return by exempting them from paying advance tax. This new scheme will come into effect from the financial year 2010-11.

**102.** Madam Speaker, in the context of the geo-political environment, it is necessary for us to create our own facilities for energy security. Accordingly, I propose to extend the tax holiday under section 80-IB(9) of the Income Tax Act, which was hitherto available in respect of profits arising from the commercial production or refining of mineral oil, also to natural gas. This tax benefit will be available to undertakings in respect of profits derived from the commercial production of mineral oil and natural gas from oil and gas blocks which are awarded under the New Exploration Licensing Policy-VIII round of bidding. Further, I also propose to retrospectively amend the provisions of the said section to provide that “undertaking” for the purposes of section 80-IB(9) will mean all blocks awarded in any single contract.

**103.** Under the present provisions of section 2 (15) of the Income Tax Act, “charitable purpose” includes relief of the poor, education, medical relief, and the “advancement of any other object of general public utility”. However, the “advancement of any other object of general public utility” cannot involve the carrying on of any activity in the nature of trade, commerce or business. I propose to provide the same tax treatment to trusts engaged in preserving and improving our environment (including watersheds, forests and wildlife) and preserving our monuments or places or objects of artistic or historic interest, as is available to trusts engaged in providing relief of the poor, education and medical relief.

## INDIRECT TAXES

**104.** Madam Speaker, I turn to my main proposals on indirect taxes.

**105.** I will first take up **customs duties**.

**106.** Although our domestic industry has weathered the impact of the global financial crisis and the resultant slowdown with resilience, it is yet to fully find its feet. Manufacturing growth, which had turned negative in October 2008 on a year-on-year basis and remained in that zone till March this year, appears to be barely turning the corner. However, the global scenario remains worrisome and it is my view that the paramount need is to provide industry with a stable framework. My proposals on indirect taxes seek to achieve this by maintaining the overall rate structure for customs and central excise duties as well as service tax. I must hasten to add that I have not hesitated to act where distortions provide a compelling reason or where relief would provide a healing touch.

**107.** Full exemption from basic customs duty was provided to Set Top Boxes in 2006 to enable their free import for the smooth introduction of the Conditional Access System (CAS). Now that production capacity has come up in the country, I propose to impose a nominal basic customs duty of 5 per cent on such Set Top Boxes to encourage domestic value addition.

**108.** The electronic hardware industry has a strong potential for creating employment especially in the SME sector. I intend to reduce the basic customs duty on LCD panels from 10 per cent to 5 per cent to support indigenous production of LCD televisions.

**109.** Full exemption from CVD of 4 per cent was available to accessories, parts and components imported for the manufacture of mobile phones till the 30th of June, 2009 . I propose to reintroduce this exemption for another year.

**110.** For reasons that are apparent, industry sectors having an export-orientation have been adversely impacted by the demand compression in global markets. Presently, exporters of leather products, textile garments, footwear as well as sports goods are permitted to import raw materials, consumables etc. upto 3 per cent of the fob value of their exports free of duty. I propose to add a few more items to these lists. Full exemption from basic customs duty is being provided to rough corals for encouraging value-addition and export.

**111.** It is imperative that the contribution of new and renewable energy sources of power is enhanced if we have to successfully combat the phenomena of global warming and climate change. I am reducing the basic customs duty on permanent magnets - a critical component for Wind Operated Electricity



Generators - from 7.5 per cent to 5 per cent.

**112.** On influenza vaccine and nine specified life saving drugs used for the treatment of breast cancer, hepatitis-B, rheumatic arthritis etc. and on bulk drugs used for the manufacture of such drugs, I propose to reduce the customs duty from 10 per cent to 5 per cent. They will also be totally exempt from excise duty and countervailing duty.

**113.** Customs duty will also be reduced from 7.5 per cent to 5 per cent on two specified life saving devices used in treatment of heart conditions. These devices will be fully exempt from excise duty and CVD also.

**114.** Gold bars currently attract customs duty at the specific rate of Rs.100 per ten grams while other forms of gold (excluding jewellery) are chargeable to a duty of Rs.250 per ten grams. These rates were fixed in 2004 and have not been reviewed even as the price of gold has increased manifold. I propose to partially restore the incidence by increasing these rates to Rs.200 per ten grams and Rs.500 per ten grams respectively. Along the same lines, the customs duty on silver (excluding jewellery) will be increased from Rs.500 per kg to Rs.1,000 per kg. These revised rates would also apply to gold and silver, including ornaments that are not studded, when imported by a *bona fide* passenger as baggage.

**115.** I will now come to **central excise duties**.

**116.** Hon'ble Members are aware that the Government announced a series of fiscal stimulus packages, one of the key elements of which was the sharp reduction in the ad valorem rates of Central Excise duty for non-petroleum products by 4 percentage points across the board on 7th of December 2008 and by another 2 percentage points in the mean CENVAT rate on the 24th of February, 2009.

**117.** One of the consequences of these cuts was that pure cotton textiles came to be fully exempted from excise duty. We have received representations that full exemption prevents manufacturers from availing of export rebate of the duty paid from CENVAT credit. I propose to rectify this situation by restoring the erstwhile optional rate of 4 per cent for cotton textiles beyond the fibre stage.

**118.** Ever since the revamp of the excise duty structure on textiles by my distinguished predecessor in the 2004 budget, a differential in rates has been maintained between the cotton sector and the manmade sector. In keeping with the integrity of the earlier structure, I propose to restore the rate of 8 per cent Central Excise duty on manmade fibre and yarn on a mandatory basis and on stages beyond fibre and yarn at that rate on optional basis. These changes, together with duty changes on

intermediates, would imply that the duty on all types of manmade fibre and yarn and their intermediates would be the same, easing the problem of credit accumulation.

**119.** Wool waste and cotton waste are chargeable to basic customs duty of 15 per cent. These are used in the manufacture of cheaper varieties of textile articles such as blankets and rugs. As a measure of relief to this sector, I propose to reduce the basic customs duty on these items to 10 per cent.

**120.** With the Government's proclaimed objective of introducing a Goods and Services Tax (GST) both at the national and State level, some more steps in that direction are necessary. One measure that would facilitate the process is the further convergence of central excise duty rates to a mean rate - currently 8 per cent. I have reviewed the list of items currently attracting the rate of 4 per cent, the only rate below the mean rate. There is a case for enhancing the rate on many items appearing in this list to 8 per cent, which I propose to do, with the following major exceptions:

- food items; and
- drugs, pharmaceuticals and medical equipment.

Some of the other items on which I propose to retain the rate of 4 per cent are:

- paper, paperboard & their articles;
- items of mass consumption such as pressure cookers, cheaper electric bulbs, low-priced footwear, water filters/purifiers, CFL etc.;
- power driven pumps for handling water; and
- paraxylene.

The details are available in the relevant notifications.

**121.** Bio-diesel, obtained from vegetable oils and used for blending with petro-diesel, is currently exempt from excise duty. I now propose to fully exempt petro-diesel blended with bio-diesel from excise duty.

**122.** In order to encourage the use of this environment friendly fuel and augment its availability in the country, I also propose to reduce basic customs duty on bio-diesel from 7.5 per cent to 2.5 per cent - at par with petro-diesel. With these proposals I hope to see a smile on the faces of the green brigade!

**123.** My other proposals on central excise duties seek to address distortions that the manufacturing

industry has been complaining about.

**124.** The IT industry has pointed out that it is facing difficulties in the assessment of software which involves transfer of the right to use after the levy of service tax on IT software service. To resolve the matter, I propose to exempt the value attributable to the transfer of the right to use packaged software from excise duty and CVD.

**125.** The construction industry has represented that they are facing difficulties on account of withdrawal of exemption on goods manufactured at site. I propose to restore full exemption to such goods, including pre-fabricated concrete slabs or blocks, when used for further construction at site.

**126.** A specific component was added to the ad valorem duty of 24 per cent applicable to large cars and utility vehicles in June last year. In the case of vehicles of engine capacity below 2000 cc, this component was Rs.15,000/- per unit while for vehicles of higher engine capacity it was Rs.20,000/- per unit. These rates are now being unified at the lower level of Rs.15,000/- per unit.

**127.** Petrol driven trucks provide a useful means of transport within cities and across short distances. These are chargeable to excise duty of 20 per cent. I propose to reduce excise duty on these trucks to 8 per cent to equate the duty with similar vehicles run on diesel.

**128.** Madam Speaker, I fear that my proposals relating to gold and silver on the customs side would somewhat dent my popularity with women. I propose to salvage this by fully exempting branded jewellery from excise duty.

**129.** I now turn to my proposals on **service tax**.

**130.** It is an international practice to zero-rate exports. To achieve this objective, a scheme was announced in 2007, granting refund of service tax paid on certain taxable services used after the clearance of export goods from the factory. For some time now, the exporting community has been expressing dissatisfaction over the difficulties faced in obtaining such refunds. Several procedural simplifications attempted in the past have also not yielded satisfactory results. The solution seems to lie in placing greater trust on the claims filed by the exporters. Keeping this in view, I propose to make the following changes in the scheme:

- Services received by exporters from goods transport agents and commission agents, where the liability to pay service tax is *ab initio* on the exporter, would be exempted from service tax. Thus, there would be no need for the exporter to first pay the tax and later claim refund.
- For other services received by exporters, the exemption would be operated through the existing

refund mechanism based on self-certification of the documents where such refund is below 0.25 per cent of fob value, and certification of documents by a Chartered Accountant for value of refund exceeding the above limit.

**131.** The Export Promotion Councils and the Federation of Indian Export Organizations (FIEO) provide a valuable service in augmenting our export effort. I propose to exempt them from the levy of service tax on the membership and other fees collected by them till 31st March, 2010 .

**132.** In the goods transport sector, service tax is currently levied on transport of goods by road, by air, through pipelines and in containers. However, goods carried by Indian railways or those carried as coastal cargo or through inland waterways are not charged to service tax. In order to provide a level playing field in the goods transport sector, I propose to extend the levy of service tax to these modes of goods transport. The new levy is not likely to impact the prices of essential commodities or goods for mass consumption, as suitable exemptions would be provided.

**133.** As the Hon'ble Members are aware, services provided by chartered accountants, cost accountants, and company secretaries as well as by engineering and management consultants are presently charged to service tax. Although there is a school of thought that legal consultants do not provide any service to their client, I hold my distinguished predecessor in high esteem and disagree! As such, I propose to extend service tax on advice, consultancy or technical assistance provided in the field of law. This tax would not be applicable in case the service provider or the service receiver is an individual.

**134.** Vehicles having 'Stage Carriage Permits' and run by State undertakings are exempted from service tax. However, transportation of passengers undertaken by private enterprises in vehicles having 'Contract Carriage Permits' is, subjected to service tax. In order to bring parity in tax treatment, I propose to exempt such transportation also from the levy of service tax.

**135.** In July, 2008 goods transport agents (GTA) went on strike with several demands. One of the demands that was accepted by the government was to exempt certain services, such as packing, cargo handling and warehousing, provided to GTAs en route, from service tax. For this purpose an exemption notification was issued. It was also demanded by goods transport agents that the proceedings already initiated against such service providers should be dropped. The Government has accepted this genuine demand. Therefore, I propose to make certain legislative changes required to fulfill this promise.

**136.** Copies of notifications giving effect to the changes in customs, central excise and service tax will be laid on the Table of the House in due course.

**137.** My tax proposals on direct taxes are revenue neutral. On indirect taxes, they are estimated to yield a net gain of Rs.2,000 crore for a full year.

#### CONCLUSION

**138.** As we begin this five year journey, the road ahead will not be easy. We will have to manage uncertainties and there will be as many problems as there would be solutions. Mahatma Gandhi said and I quote, “Democracy is the art and science of mobilizing the entire physical, economic and spiritual resources of various sections of the people in the service of the common good of all.” This is precisely what we will have to do. With strong hearts, enlightened minds and willing hands, we will have to overcome all odds and remove all obstacles to create a brave new India of our dreams.

**139.** Madam Speaker, with these words I commend the budget to the House.