

*Union Budget 2008-09: Review and Assessment**

The article undertakes a review and an assessment of the Union Budget 2008-09. The revised estimates of the finances of the Central Government during 2007-08 placed the key deficit indicators, viz., revenue deficit and fiscal deficit in relation to GDP lower than the budget estimates. This was mainly on account of higher revenue receipts, facilitated by buoyant tax revenue. The primary balance continued to be in surplus. A notable feature of the budget is that although the revenue deficit has complied with the target of annual reduction of 0.5 per cent of GDP, in terms of the Fiscal Responsibility and Budget Management Act, it could not be eliminated by 2008-09 as required under the Act on account of a conscious shift in expenditure in favour of health and education which have a large revenue expenditure component. Therefore, the target for elimination of revenue deficit has been rescheduled by one more year to 2009-10. The target for gross fiscal deficit would be attained as per mandate, i.e., 3.0 per cent of GDP by 2008-09. The budget committed to strengthen the path of fiscal consolidation in 2008-09 with the continued strategy of revenue-led correction along with the continuation of allocation of expenditure towards social and physical infrastructure.

The Union Budget 2008-09 was presented in an environment of sustained growth and continued strong macro-economic fundamentals on the domestic front, notwithstanding the slowdown of the global economy. The

* Prepared in the Division of Central Finances of the Department of Economic Analysis and Policy. This article is based on the Union Budget 2008-09 presented to the Parliament on February 29, 2008. The article on Union Budget 2007-08 had appeared in the May 2007 issue of the RBI Bulletin.

nominal growth rate of Gross Domestic Product (GDP) for 2008-09 has been assumed at 13.0 per cent. Assuming an inflation rate of 4-5 per cent, the real GDP growth would be 8-9 per cent. The major thrust of the budget is to accord priority for sustained, rapid and a more inclusive economic growth with a sharp focus on development of physical and social infrastructure. In the penultimate year of Fiscal Responsibility and Budget Management (FRBM) Act, 2003, the budget proposed that the target relating to fiscal deficit would be achieved as per mandate while that relating to elimination of revenue deficit would be rescheduled by one more year to 2009-10. The budget proposed that the ongoing reforms and fiscal correction initiatives would continue to be supportive of raising domestic demand and investment, both of which are main drivers of growth in GDP. Towards this end, the budget sought to rationalise the personal income tax and Central excise, broaden the tax base by adding more services for service tax and improve expenditure management with focus on outcomes and provision of adequate investment for social sector. A major proposal in the budget relates to introduction of a scheme of Debt Waiver and Debt Relief for extending help to the indebted farmers.

Thrust of the Budget

Growth and Equity

The Union Budget 2008-09 reiterated its commitment to faster and more

inclusive growth and also emphasised the need to address supply constraints on growth. The Government considered the second year of the Eleventh Plan extremely critical to the success of the Plan. In this context, it emphasised that 2008-09 should be a year of the consolidation; of securing the ongoing programmes on firm financial foundation; of close monitoring of implementation and enforcing accountability and of measuring the outcomes in terms of the targets achieved as well as their quality. Despite pressure from committed and non-discretionary expenditures such as interest payments, defence, pensions, salaries, subsidies, the fiscal policy for 2008-09 remains committed to the overarching objectives of achieving faster and more inclusive growth by increasing allocation for social sectors, including rural employment, education and health, while at the same time ensuring adequate resources for improving infrastructure to boost employment, investment and consumption levels.

Fiscal Consolidation

The Central Government continued the fiscal correction process in 2007-08 with key deficit indicators, *viz.*, revenue deficit (RD) and gross fiscal deficit (GFD) turning out to be lower than the budget estimates by 0.1 per cent and 0.2 per cent, respectively. This was on account of robust economic growth coupled with buoyant tax revenue. The Union Budget 2008-09 continued with the revenue led

process of fiscal consolidation while focussing on the outcomes and improving the allocative efficiency of public expenditure. The RD was budgeted to be reduced by 0.4 per cent, close to the annual reduction of 0.5 per cent as stipulated under FRBM Rules. However, under FRBM Rules 2004, the RD was required to be reduced to zero by 2008-09. This could not be adhered to on account of a conscious shift in expenditure in favour of health and education which include a large component of revenue expenditure.

The target for reducing RD to zero was, therefore, rescheduled by one more year, i.e., 2009-10¹. In the case of GFD, the correction is as per the mandate under FRBM Rules. The process of fiscal consolidation would continue to be sustained through improvement in tax-GDP ratio, moderate growth in non-tax revenue, reprioritisation and improvement in the quality of expenditure including promotion of capital expenditure to boost infrastructure development while ensuring adequate resources for social sectors like health and education.

Tax Proposals

The Union Budget 2008-09 pursued the tax policy that has been in vogue in recent years, whereby tax policy has been

¹ As per the FRBM Rules, 2004 (as amended in Finance Act, 2004), GFD is to be reduced by 0.3 per cent or more of GDP every year, beginning with the year 2004-05, so that the GFD does not exceed 3 per cent of GDP by March 31, 2009. RD is to be reduced by 0.5 per cent or more of GDP at the end of each year, beginning from 2004-05, in order to achieve elimination of the RD by March 31, 2009.

governed by the overarching objective of increasing the tax-GDP ratio for achieving fiscal consolidation. In the Budget 2008-09, this is sought to be achieved both through appropriate policy interventions and a steadfast improvement in the quality and effectiveness of tax administration. On the policy side, a strategy of moderate and few rates, removal of exemptions and broadening of the tax base were proposed for attaining desired outcomes. In this context, it is worthwhile to note that threshold limit on personal income tax has been further enhanced in the Budget and the income slabs have been rationalised. In the case of tax administration, extensive adoption of Information Technology' solutions continued to enable a less intrusive tax system which fosters voluntary compliance. On the indirect tax side, the CENVAT rate was further reduced to 14 per cent. The measure was intended to integrate the taxes on goods (Central Excise) and services and finally move to a comprehensive Goods and Services Tax (GST) by April 1, 2010. Excise duty in case of certain sectors such as pharmaceuticals, automobiles, paper and paper board has been reduced. The Budget proposed to improve the revenue yield from service tax by adding four more number of services in keeping with the contribution of the sector to GDP. Thus, the strategy of tax policy is aimed to improve compliance, efficiency in administration through the use of information technology and raise revenue collections.

Against the above backdrop, this article makes an assessment of the Union

Budget 2008-09. Section I presents major policy initiatives. The tax proposals announced in the Budget are provided in Section II. The budgetary outcome in the revised estimates for 2007-08 is discussed in Section III. An analysis of Budget Estimates of 2008-09 is presented in Section IV. Section V provides an assessment of the budget followed by conclusion in Section VI.

Section I Major Policy Initiatives

The major policy announcements in the Budget for 2008-09 continued to focus on the areas covered under *Bharat Nirman*,² reflecting the higher allocations towards the eight flagship programmes of the Government covering, inter alia, education, health and rural employment. Apart from the areas under *Bharat Nirman*, a major announcement in the Budget related to the 'debt waiver and debt relief' scheme for the indebted farmers. In the second year of the Eleventh Five Year Plan, the focus of the Union Budget 2008-09 is on consolidation, securing the ongoing programmes on firm financial foundations, close monitoring of implementation and enforcing of accountability and measuring the outcomes in terms of the targets achieved as well as their quality. The Government, therefore, envisaged to strengthen evaluation by authorising independent evaluations of the major schemes. A Central Plan Scheme Monitoring System

² Bharat Nirman which was introduced in 2005-06 is a four year business plan emphasizing on building infrastructure and providing basic amenities in rural India.

(CPSMS) has been proposed to be put in place to monitor scheme-wise and state-wise releases for Central Plan and Centrally Sponsored Schemes. The budget lays special emphasis on schemes for upliftment of women and children. It reiterates its focus on agriculture, education and health. The Gross Budgetary Support (GBS) in 2008-09 would be Rs.2,43,386 crore, an increase of 18.7 per cent over the previous year. The budget proposes a higher allocation for *Bharat Nirman* at Rs.31,280 crore showing an increase of Rs.6,677 crore (27.0 per cent) over that of 2007-08. The budget has envisaged to mobilise additional resources under Plan 'B' to the tune of Rs.10,000 crore, to be used for Plan capital expenditure.

I. Agriculture & Rural Development

In the Union Budget 2008-09, agriculture continued to receive priority for ensuring self-sufficiency in food grain production and maintaining macro-economic stability and growth. The major thrust areas in this sector include credit, investment, irrigation, diversification of crops, revamping of cooperative credit structure and debt waiver and debt relief.

a) *Agricultural Credit, Debt Waiver and Debt Relief*: The credit from scheduled commercial banks and regional rural banks is expected to exceed the target set for 2007-08. The Union Budget 2008-09 placed the target for agricultural credit at Rs.2,80,000 crore. The Union Budget 2008-09 focussed on easing the burden of agricultural credit,

promoting investment in agriculture, management and augmentation of water resources and improving the coverage of crop insurance. In order to enhance disbursement short term crop loans at 7 per cent per annum, an initial provision of Rs.1,600 crore for interest subvention has been made. Keeping in view the dimensions of the problem and the difficulty of the farmer community, specially the small and marginal farmers, the budget 2008-09 has proposed a scheme of debt waiver and debt relief. It may be noted that the Committee under Dr. R. Radhakrishna appointed by the Government to examine all aspects of agriculture indebtedness had, however, not recommended waiver of debt. The salient features of the proposed scheme of debt waiver and debt relief are: i) all agricultural loans disbursed by schedule commercial banks, regional rural banks and co-operative credit institutions up to March 31, 2007 and overdue as on December 31, 2007 will be covered under the scheme, ii) marginal farmers and small farmers will receive the benefit of complete waiver of all overdue loans on December 31, 2007, and which remain unpaid until February 29, 2008, iii) for other farmers there will be a one-time settlement scheme (OTS) for all loans that were overdue on December 31, 2007 and remained unpaid up to February 29, 2008, a rebate of 25 per cent will be given against the payment of balance 75 per cent, iv) agricultural loans restructured and rescheduled by banks in 2004 and 2006 through special packages will also

be eligible either for a waiver or an OTS under the proposed scheme, and v) about 3 crore small and marginal farmers and about 1 crore other farmers will benefit from the scheme. The total value of overdue loans being waived is estimated at Rs.50,000 crore and the OTS relief on the overdue loans is estimated at Rs.10,000 crore.

b) Irrigation: Government is investing considerably in Accelerated Irrigation Benefit Programme (AIBP) and Rainfed Area Development Programme and in the management and augmentation of water resources. Under AIBP, 24 major and medium irrigation projects and 753 minor irrigation schemes are proposed to be completed during 2008-09, creating additional irrigation potential of 500,000 hectare. The outlay for these schemes in 2008-09 would be increased to Rs.20,000 crore from Rs.11,000 crore in 2007-08. In view of the massive investment required in agriculture, Government has approved 14 projects that satisfy certain criteria as national projects requiring Rs.7,000 crore during the Eleventh Plan. In this regard, Government proposes to establish the Irrigation and Water Resources Finance Corporation (IWRFC) with an initial capital of Rs.100 crore contributed by the Central Government. State Governments and other financial institutions would be invited to contribute to the equity. Furthermore, a crop insurance scheme for tea, rubber, tobacco, chilli, ginger, turmeric, pepper and cardamom is proposed to be introduced. The National Agriculture Insurance Scheme (NAIS)

would be continued in its present form for *Kharif* and *Rabi* 2008-09, pending a decision on an alternative crop insurance scheme that is acceptable to the farmers as well as viable to the insurer.

c) Rural Infrastructure: The Budget continued to make impressive progress in attaining the targets for building rural infrastructure under Bharat Nirman for provision of irrigation, water supply, roads, houses, electrification and telephone facilities in the villages during 2007-08. On each day of the year, 290 habitations are provided with drinking water, 17 habitations are connected through an all weather road, 52 villages are provided with telephones, 42 villages are electrified and 4,113 houses are constructed. The corpus of Rural Infrastructure Development Fund (RIDF) in 2008-09 would be Rs.14,000 crore. It is proposed to operate a separate window under RIDF for rural roads with a corpus of Rs.4,000 crore. In the power sector, five more ultra mega power projects (UMPP) will be extended support. Under the sector-wise allocation of Central plan outlay (Rs.3,75,485 crore) in the budget 2008-09, in respect of infrastructure comprising transport (including rural road), energy and communications an amount of Rs.1,99,929 crore has been provided, which is higher by 26.7 per cent over the revised estimates for 2007-08.

1.2 Industry and Services

With regard to industry, the Budget has proposed a set of measures in respect of textiles, micro, small and medium

enterprises. In the case of services sector, the Budget proposes to pursue industry friendly policy and increased the provision to the Department of Information Technology to Rs.1,680 crore. A scheme for establishing 100,000 broadband internet-enabled Common Service Centres in rural areas and a scheme for establishing State Wide Area Networks (SWAN) with Central assistance is under implementation.

a) Textiles and Handlooms: In order to meet the competition in the global market, government continued the supportive policy measures to this segment. The two major schemes of the Ministry of Textiles - the Scheme for Integrated Textile Parks (SITP) and the Technology Upgradation Fund (TUF) are proposed to be continued in the Eleventh Plan. All 30 integrated textile parks have been approved and 20 units in four parks have commenced production. The Government has proposed to maintain the provision for SITP at Rs.450 crore in 2008-09 while the provision for TUF was increased to Rs.1,090 crore in 2008-09 from Rs.911 crore in 2007-08. In the case of handloom sector, over 17 lakh family of weavers are proposed to be covered under the health insurance scheme and in this regard an allocation of Rs.340 crore has been made in 2008-09.

b) Micro, Small and Medium Enterprises: There has been a secular rise in the number of registered units, unregistered units, production, employment and exports in the case of micro, small and medium enterprises. In

order to provide support to this sector, the Government proposed to create a risk capital fund in the Small Industries Development Bank of India (SIDBI). As on January 31, 2008, the Credit Guarantee Trust with SIDBI had extended guarantees to 89,129 units for an amount of Rs.2,479 crore. SIDBI would reduce the guarantee fee from 1.5 per cent to 1 per cent and the annual service fee from 0.75 per cent to 0.5 per cent for loans up to Rs.5 lakh.

1.3 Physical Infrastructure

The Budget pursued to take measures aimed at expansion of infrastructure which is vital for growth. In the case of power, by end-March 2008 additional 10,000 MWs is proposed to be created against 78,577 MWs target set for the Eleventh Plan. According to the Government, this is the best first year in any plan period. The Government approved continuation of the Rajiv Gandhi Grameen Vidyutikaran Yojana during the Eleventh Plan period with a capital subsidy of Rs.28,000 crore. In this regard, the Budget has made a provision of Rs.5,500 crore in 2008-09 for the Yojana (including NER). In view of the poor state of transmission and distribution, a national fund for transmission and distribution reform is proposed to be created. The provision for Accelerated Power Development and Reforms Project is budgeted at Rs.800 crore in 2008-09. All phases of the *National Highway Development Programme* (NHDP) are in progress. In the Budget, it was proposed to enhance the allocation for National

Highway Development Programme to Rs.12,966 crore in 2008-09 from Rs.10,867 crore in 2007-08.

The Jawaharlal Nehru National Urban Renewal Mission (JNNURM) which was launched on December 3, 2005, is designed to meet the challenges of creating urban facilities of satisfactory standards in seven mega cities with a population of over a million and some other towns. It has succeeded in driving reforms in urban governments and urban related laws. The allocation for JNNURM would increase from Rs.5,482 crore in 2007-08 to Rs.6,866 crore in 2008-09.

1.4 Support to Central Public Sector Undertakings

In the Budget, the Government proposed to provide Rs.16,436 crore as equity support and Rs.3,003 crore as loans to central public sector enterprises (CPSEs) with a view to strengthen the public sector. At present, 44 CPSEs are listed in the stock exchanges. It is the policy of the Government to list more CPSEs in order to unlock their true value and improve corporate governance.

1.5 Social Infrastructure and Welfare Measures

The social sector infrastructure would continue to be developed through higher allocation of outlays to the flagship programmes relating to rural employment, education, health, water supply, women and child development and other welfare programmes and pursuing as well as monitoring the

achievement of physical targets set out in these programmes.

a) Education and Health: The Government has emphasised that 'education and health' are the twin pillars on which rests the edifice of social sector reforms. In the Union Budget 2008-09, the allocation for the education (including NER) would increase by 20 per cent to Rs.34,400 crore. The focus of *Sarva Shiksha Abhiyan (SSA)*, a flagship programme under *Bharat Nirman*, will shift from access and infrastructure at the primary level to enhancing retention, improving quality of learning and ensuring access to upper primary classes. A new scheme to establish 6,000 high quality model schools is proposed. The mid-day meal scheme is proposed to be extended to upper primary classes in Government and Government-aided schools in all blocks in the country, taking the total number of children covered under the Scheme to 13.9 crore. Furthermore, institutes of higher education, *viz.*, Indian Institute of Technology (IITs), Indian Institute of Social and Economic Research (IISERs) and Schools of Planning and Architecture would be set up in various States. Based on the recommendation of the National Knowledge Commission, the Ministry of Information and Technology would establish a National Knowledge Network to encourage sharing of resources and collaborative research. In order to address the challenge of imparting the skills required by a growing economy, a non-profit corporation with Rs.1,000 crore as

equity from the Government would be set up to operate a skill development programme in mission mode.

The allocation for the health sector would increase by 15 per cent to Rs.16,534 crore in 2008-09. Out of this, the allocation for National Rural Health Mission (NRHM) would be Rs.12,050 crore. The NRHM is the key instrument of intervention by the Central Government in order to establish a fully functional, community owned decentralised health delivery system. 462,000 Associated Social Health Activists (ASHAs) and link workers have been trained. 177,924 Village Health and Sanitation Committees are functional. 323 district hospitals have been taken up for upgradation. The Union Budget proposed to start a Rashtriya Swasthya Bima Yojana (RSBY) in order to provide a health cover of Rs.30,000 for every worker in the unorganised sector falling under the Below Poverty Line (BPL) category and his/her family. Similarly, a National Programme for the Elderly was proposed to be started in 2008-09. The number of projects under Integrated Child Development Services (ICDS) Scheme at end December 2007 were 5,959 and Anganwadi and mini-Anganwadi centres 932,000. The beneficiaries under these schemes increased to 6.3 million children and 1.3 million pregnant and lactating mothers.

b) Drinking Water and Sanitation: The allocation for the Rajiv Gandhi Drinking Water Mission would be enhanced to Rs.7,300 crore in 2008-09 from Rs.6,500

crore in 2007-08 in order to supply safe drinking water to uncovered habitations and slipped back habitations and also to ensure quality. The provision for total sanitation campaign has been budgeted at Rs.12,000 crore in 2008-09.

c) Employment generation: The allocation for National Rural Employment Guarantee Scheme (NREGS) has been budgeted at Rs.16,000 crore and the scheme is proposed to be rolled out to all 596 rural districts in India. The Government has mentioned that more money would be provided to meet the legal guarantee of employment.

d) Social Security to Unorganized Sector Workers: The Government has introduced three schemes that are designed to provide social security to workers in the unorganised sector in a phased manner in anticipation of 'The Unorganised Sector Workers' Social Security Bill 2007' being made into law. The schemes are: *a) The Aam Admi Bima Yojana* that will provide insurance cover to poor households. In the first year of the Yojana, LIC would cover 10 million landless households by September 30, 2008. The Government had already placed Rs.15,000 crore with LIC. In order to cover another 10 million poor households in the second year, an additional sum of Rs.1,000 crore was proposed to be placed with LIC in 2008-09; *b) The Rashtriya Swasthya Bima Yojana* would be implemented with effect from April 1, 2008; and *c) The coverage under Indira Gandhi National Old Age Pension Scheme* would be expanded

from 8.7 million to 15.7 million beneficiaries, who are over 65 years falling under BPL category. The allocation for this purpose was increased to Rs.3,443 crore in 2008-09 from Rs. 2,392 crore in 2007-08.

e) Other Welfare Measures: In order to make accessible quality schools like Jawahar Navodaya Vidyalayas to Scheduled Castes (SCs) and Scheduled Tribes (STs) students, the Government proposed to establish these schools in 20 districts which have a large concentration of SCs and STs. The provision for this scheme has been budgeted at Rs.130 crore in 2008-09. The Government has made a provision of Rs.3,966 crore for schemes benefitting SCs and STs exclusively in 2008-09. Kasturba Gandhi Balika Vidyalayas were set up to address the issue of equity in the education of girls belonging to SC, ST, OBC and minority communities. 1,754 vidyalayas have been started so far and the Government proposed to allocate funds (as part of SSA) to set up an additional 410 vidyalayas in educationally backward blocks. The Government also proposed to provide a sum of Rs.80 crore to set up new or upgrade existing hostels attached to the Balika Vidyalayas. Development and Finance Corporations were set up for certain disadvantaged groups and accordingly government contributed an additional equity to these corporations. A sum of Rs.75 crore was allocated in 2008-09 for the Rajiv Gandhi National Fellowship Programme in order to support SC and ST students pursuing

M.Phil. and Ph.D Courses. The allocation for the development of minorities were increased to Rs.1,000 crore in 2008-09 from Rs.500 crore in 2007-08. The outlay for 100 per cent women specific schemes programme was fixed at Rs.11,460 crore in 2008-09 while for schemes, where at least 30 per cent was for women specific programmes, the outlay was kept at Rs.16,202 crore in 2008-09. The Backward Regions Grant Fund was given Rs.5,800 crore in 2007-08. The Government proposed to keep the allocation at the same level for the year 2008-09; about 45 per cent of the amount was likely to be allocated to the States of Bihar, Orissa and Uttar Pradesh. The allocation for North-Eastern Region spread over different Ministries/Departments was proposed to be increased to Rs.16,447 crore in 2008-09 from Rs.14,365 crore in 2007-08. This includes Rs.1,455 crore to the Ministry of Development of North-Eastern Region.

1.6 Financial Sector

a) Banking

The resource base of National Bank for Agriculture Rural Development (NABARD), Small Industries Development Bank of India (SIDBI) and National Housing Bank (NHB) would be enhanced by creation of a fund of Rs.5,000 crore in NABARD, two funds of Rs.2,000 crore each in SIDBI and a fund of Rs.1,200 crore in NHB to enhance their refinance operations. The resources for these funds would be tapped from the resources of the scheduled commercial banks to the extent that they fall short of their

obligation to lend to the priority sector. These funds would be governed by the general guidelines applicable to RIDF with some modifications.

The borrower's eligibility criteria under the Differential Rate of Interest Scheme (DRI) for the weaker sections of the community engaged in gainful occupations would be fixed as annual family income of Rs.18,000 in rural areas and Rs.24,000 in urban areas. The public sector banks would be advised to include Indira Awas Yojana (IAY) houses under the DRI scheme and lend up to Rs.20,000 per unit at an interest rate of 4 per cent.

b) Insurance

As alluded earlier, a sum of Rs.1,000 crore would be placed with the Life Insurance Corporation of India (LIC) to cover another 10 million poor households in the second year of *Aam Admi Bima Yojana (AABY)*. LIC would also be asked to scale up the coverage of its Janashree Bima Yojana to cover all women self-help groups (SHGs) that are credit-linked to banks. A contribution of Rs.500 crore would be made to the corpus of the Social Security Fund, which subsidises one-half of the premium, with the assurance that annual contributions will be made as the scheme is scaled up.

c) Financial Inclusion

Based on the recommendations of the Committee on Financial Inclusion (Chairman: Dr. C. Rangarajan), the commercial banks including Regional Rural Banks (RRBs), would be advised to add at least 250 rural household accounts

every year at each of their rural and semi-urban branches; and allow individuals such as retired bank officers, ex-servicemen etc. to be appointed as business facilitator or business correspondent or credit counsellor. Furthermore, in order to strengthen the ongoing financial inclusion, the Government would request all scheduled commercial banks to meet the entire credit requirements of SHG members, namely, (a) income generation activities, (b) social needs like housing, education, marriage etc and (c) debt swapping.

d) Capital Market

Taking forward the reforms initiated in the previous year's budget to create an exchange-traded market for corporate bonds, it has proposed to launch exchange-traded currency and interest rate futures and develop a transparent credit derivatives market with appropriate safeguards. A mechanism to enable investors to separate the embedded equity option from the convertible bond and traded separately would be instituted to enhance the tradability of domestic convertible bonds. The requirement of Permanent Account Number (PAN) would be extended to all transactions in the financial market subject to suitable threshold exemption limits. The Empowered Committee of State Finance Ministers will be requested to work with the Central Government to create a pan Indian market for securities that will expand the market

base and enhance the revenues of the State Governments.

1.7 Public Finance

The Government has acknowledged that significant liabilities of the Government on account of oil, food and fertiliser bonds are currently below the line. This accounting arrangement is consistent with past practice. However, fiscal and revenue deficits are understated to that extent. The Government has recognised the need to bring these liabilities into fiscal accounting. As a first step in this direction, these liabilities have been shown clearly in 'Budget at a Glance'. After the obligations on account of the Sixth Central Pay Commission become clear, Government intends to request the Thirteenth Finance Commission to revisit the roadmap for fiscal adjustment and suggest a suitably revised roadmap. Following an agreement between the Central Government and State Governments, the rate of Central Sales Tax was reduced from 4 per cent to 3 per cent in 2007-08 and it was proposed to be reduced further to 2 per cent from April 1, 2008. Consultations are underway under compensation for losses, if any, and once the agreement is reached, the new rate would be notified. The Government has also mentioned that there is a considerable progress in preparing a road map for introducing the goods and services tax with effect from April 1, 2010.

Section II

TAX PROPOSALS

The tax proposals announced in the Union Budget 2008-09 focus at sustaining the growth in tax revenue and also further consolidating the achievements made in the last four years. As per cent of GDP, tax revenue is budgeted to increase to 13.0 per cent in 2008-09 from 12.5 per cent in 2007-08. This is sought to be achieved through appropriate policy intervention coupled with improvement in the quality, efficiency and effectiveness of tax administration. On the policy side, the strategy has been moderate and few tax rates, removal of exemptions and broadening of the tax base. In the case of tax administration, the focus has been on recovery of arrears of tax revenue, improvement in service delivery to the tax payer and enhancement of deterrence levels. Overall, the direct tax measures in the Union Budget 2008-09 have been revenue neutral whereas the indirect proposals would involve a loss of Rs.5,000 crore. Detailed tax proposals are set out in the Annex I. The major proposals in respect of direct and indirect taxes are as follows.

II.1 Direct Taxes

In the case of direct taxes the corporate tax rates were kept unchanged. The threshold limits for income tax were increased based on the premise that 'trust will beget trust, moderation will beget revenues and fairness will beget compliance'. The Budget sought to maximise direct tax revenue through

expanding the base and maintaining moderate tax rates.

a) Personal Income Tax

In the Union Budget it was mentioned that moderate taxes would maximize revenue. Accordingly, the threshold limit of exemption for all assesses for Personal Income Tax (PIT) was increased from Rs.110,000 to Rs.150,000, thus giving every assesses a relief at a minimum of Rs.4,000. In the case of women the basic exemption limit was raised to Rs.1,80,000, and in case of senior citizens above 65 years of age, the exemption limit was raised to Rs.2,25,000. The Budget also proposed the changes in slabs for personal income tax (Table 1).

With a view to encouraging small savings, it was proposed to enlarge the scope of eligible instruments by inserting two new schemes under Section 80C of the Income Tax Act. Accordingly, the Senior Citizens Savings Scheme 2004 and the Post Office Time Deposit Account were proposed to be added to the basket of saving instruments. It was proposed to allow an additional deduction of Rs.15,000 under Section 80D to an individual who pays medical insurance premium for his/her parent or parents. In order to clarify the tax issues arising out of the Reverse Mortgage Scheme, it

Table 1: Income Tax Rates

Up to Rs.1,50,000/-	Nil
Rs.1,50,001/- to Rs.3,00,000/-	10 per cent
Rs.3,00,001/- to Rs.5,00,000/-	20 per cent
Above Rs.5,00,001/-	30 per cent

was proposed to amend Income Tax Act to provide that reverse mortgage would not amount to "transfer" and the stream of revenue received by the senior citizen would not be "income". The Banking Cash Transaction Tax (BCTT) was proposed to be withdrawn with effect from April 1, 2009. Coir Board was proposed to be excluded from income tax.

b) Corporate Tax

Owing to buoyancy in corporate income tax (CIT) collections and better compliance during 2007-08, no change in the rate of corporate income tax and the rate of surcharge in the Budget 2008-09 were proposed. The existing CIT rates of 30 per cent for domestic companies and 40 per cent for foreign companies were retained. The corporate debt instruments issued in demat form and listed on recognised stock exchanges would be exempted from Tax Deduction at Source.

The Union Budget proposed to increase the rate of tax on short term capital gains to 15 per cent to bring it in line with the tax rate of 15 per cent on the dividend distribution. At present, a domestic company is liable to pay Dividend Distribution Tax (DDT). As a result, the distributed dividend is sometimes taxed twice in the hands of a subsidiary company as well as its parent company. It was proposed to allow a parent company to set off the dividend received from its subsidiary company against dividend distributed by the parent company, provided that the dividend received has suffered DDT

and the parent company is not a subsidiary of another company.

The Union Budget 2008-09 proposed to provide some relief to corporates and firms in the Fringe Benefit Tax (FBT) by excluding crèche facilities, sponsorship of an employee-sportsperson, organising sports events for employees and guest houses from the purview of FBT.

At present, Securities Transaction Tax (STT) paid is allowed as a rebate against tax liability. It was proposed that STT paid would be treated like any other deductible expenditure against business income. Further, the levy of STT, in the case of options, would be only on the option premium where the option is not exercised, and the liability will be on the seller. In a case where the option is exercised, the levy would be on the settlement price and the liability would be on the buyer. There would be no change in the present rates. The Union Budget proposed to introduce a Commodities Transaction Tax (CTT) on the same lines as STT on options and futures traded in commodity exchanges.

II.2 Indirect Taxes

a) Customs Duty

The peak rate of customs duty for non-agricultural products, which was 20 per cent in January 2004, stands at 10 per cent. The Government proposed to keep peak customs duty for non-agricultural products at this level. The collection rate is the closest approximation to the

protection to the domestic industry. In order to provide a fillip to a specific industry or to promote value addition, the Budget proposed to reduce the customs duty on, among others, project imports, steel melting scrap and aluminium scrap, certain specified life saving drugs and on the bulk drugs used for the manufacture of such drugs, crude and unrefined sulphur and phosphoric acid. A 4 per cent special CVD on a few specified projects in the power sector would be imposed.

On account of a complex regime of export benefits and duty exemptions, naphtha is exported from refineries and naphtha is imported by manufacturers of polymers, leading to price distortions and revenue losses. It is proposed to withdraw the duty exemption on naphtha for use in the manufacture of polymers and subject it to the normal rate of 5 per cent. However, naphtha imported for the production of fertilisers will continue to be exempt from import duty. The duty specified parts of set top boxes and specified raw materials for use in the IT/electronic hardware industry would be fully exempted.

b) Excise Duty

In order to provide stimulus to the manufacturing sector, it was proposed to reduce the general CENVAT rate on all goods from 16 per cent to 14 per cent. It was proposed to abolish the ad valorem part of the excise duty on unbranded petrol and unbranded diesel and replace the same by an equivalent specific duty of Rs.1.35 per litre. Henceforth, there would be only a

specific duty of Rs.14.35 per litre on unbranded petrol and Rs.4.60 per litre on unbranded diesel. There will be no impact on retail prices.

It was proposed to reduce the excise duty in the case of specific sectors that are growth and employment drivers, viz; all goods produced in the pharmaceutical sector, buses and their chassis, small cars and hybrid cars, two wheelers and three wheelers, paper/paper board and articles made therefrom, and writing, printing and packing paper. On certain goods of mass consumption, it is proposed to reduce the excise duty from 16 per cent to nil including, composting machines, wireless data cards, packaged coconut water, tea and coffee mixes, and puffed rice.

In order to bring parity in the excise duty rates on bulk cement and packaged cement, bulk cement will now attract excise duty of Rs.400 per Metric Tonne or 14 per cent ad valorem, whichever is higher. Cement clinkers will be liable to excise duty of Rs.450 per Metric Tonne.

c) Service Tax

The Budget proposed to keep the service tax rate unchanged. In keeping with the growing share of service sector in the economy, the coverage of services was widened under the service tax net by adding four more number of services in the Union Budget 2008-09 to the existing list of services. The proposed services which are to be brought under the service tax net are: (i) asset management service provided under Unit Linked Insurance Plan (ULIP) (to bring

Box 1: Amendments to the Finance Bill, 2008

The Lok Sabha has passed the Finance Bill, 2008 including the amendments introduced by the Government on April 29, 2008. The following are the major amendments to the Finance Bill proposed by the Finance Minister.

Direct Taxes:

- The definition of 'charitable purpose' has been amended so as to limit the benefit to entities which are engaged in activities such as relief of the poor, education, medical relief and any other genuine charitable purpose, and to deny it to purely commercial and business entities which wear the mask of a charity.
- The sunset clauses under section 10A and 10B of the Income tax Act stipulate March 31, 2009 as the date on which the exemptions will come to an end. However, the Budget for 2009-10 may not be presented in February, 2009 due to the elections. In order to avoid any uncertainty at that time, it has been decided that the two sections would be amended and the exemptions continued until March 31, 2010.
- A new clause 8 in the Finance Bill, 2008 is proposed to be inserted to provide that no disallowance under section 40(a) (ia) of the Income-tax Act shall be made in the case of a deductor, in respect of the expenditure incurred in the month of March, if the tax deducted at source on such expenditure has been paid before the due date of the filing of the return. The taxpayers will now get a time period of six months for depositing such tax deducted at source, relatable to payments in the month of March, to escape the disallowance of the expense under this section. The proposed amendment would be given retrospective effect from assessment year 2005-06.

- With a view to ensuring that the benefit (of deduction) to refineries under construction in Paradeep, Bina and Bathinda is not denied on account of their inability to adhere to deadline (to begin refining before April 1, 2009), it has been proposed that such refineries would be eligible to avail of the benefit if they begin refining not later than the March 31, 2012.

Indirect Taxes*Customs duty*

- In order to encourage value addition and exports, besides the proposed reduction in customs duty on some of the inputs of gem and jewellery industry, full exemption from basic customs duty would be given to two more inputs, namely, cut and polished colored gemstones and rough synthetic gemstones that currently attract 5 per cent duty.
- Basic customs duty on newsprint is proposed to be reduced from 5 per cent to 3 per cent to help newspaper industry.
- Tapioca starch is manufactured primarily by a large number of small, unorganized units. Owing to a hefty increase in the volume of imports, the Government had earlier imposed a safeguard duty on this item in the year 2005-06 for a period of three years. This levy expires on 1st May, 2008. In order to allow some additional flexibility to this industry to adjust, it has been proposed to increase the basic customs duty on this item from 30 per cent to 50 per cent with effect from 1st May 2008 coinciding with the expiry of the safeguard duty.
- Anti-dumping duty is not levied on imports made by 100 per cent Export Oriented Units (EOUs). However, these

Box 1: Amendments to the Finance Bill, 2008 (Concl'd.)

units often use imported inputs for the manufacture of goods that are sold domestically. They are also permitted to sell a portion of imported inputs into the domestic market. With a view to providing a level playing field to domestic units, it is proposed that EOUs would be liable to pay anti-dumping duty on imported inputs either sold directly or contained in finished products that are sold in the domestic market.

Excise duty

- Packaged cement with a price above Rs.250 per bag (of 50 kg.) is currently chargeable to a specific rate of duty of Rs.600 per metric tonne (PMT). This results in a regressive duty structure and does not sufficiently discourage increase in price beyond threshold of Rs.250 per bag. It is proposed to correct this by changing the mode of levy on packaged cement in this price bracket to an ad valorem rate of 12 per cent of retail sale price. For this purpose, the statutory rate for cement has been enhanced to Rs.900 PMT.
- The Government had fully exempted electric cars from excise duty in the Budget 2008-09 since they are emission free. It is proposed to extend this exemption to all electric vehicles, including two-wheelers and three-wheelers.
- Replaceable kits used in water filters presently attract the peak rate of 14 per cent excise duty and this is inhibiting a rapid growth in their use. It is proposed to fully exempt replaceable kits used in such water filters from excise duty.
- It has been proposed to take the following measures in the case of steel and steel products in order to augment domestic supply as well as soften prices:

- (i) Basic customs duty on pig iron and mild steel products viz. sponge iron, granules and powders; ingots, billets, semi-finished products, hot rolled coils, cold rolled coils, coated coils/sheets, bars and rods, angle shapes and sections and wires is proposed to be reduced from 5 per cent to nil.
 - (ii) TMT bars and structurals are commonly used for construction of houses. In order to rein in the price, it has been proposed to fully exempt the import of this item from CVD which is currently 14 per cent.
 - (iii) Basic customs duty on three critical inputs for manufacture of steel, *i.e.*, metallurgical coke, ferro alloys and zinc is proposed to be reduced from 5 per cent to nil.
 - (iv) It has been proposed to impose export duty on steel items at three different rates; 15 per cent on specified primary forms and semi-finished products, and hot rolled coils/sheet; 10 per cent on specified rolled products including cold-rolled coils/sheets and pipes and tubes; 5 per cent on galvanized steel in coil/sheet form.
- In order to ensure adequate availability of milk in lean summer months, basic customs duty on skimmed milk powder is proposed to be reduced from 15 per cent to 5 per cent for a Tariff Rate Quota of 10,000 metric tonnes per annum. Similarly, on butter oil, duty has been proposed to be reduced from 40 per cent to 30 per cent.
 - It has been proposed to impose an export duty of Rs.8,000 per tonne on basmati rice along with a reduction in its minimum export price to US \$ 1,000 per tonne from US \$ 1,200 per tonne.

it on par with asset management service provided under mutual funds), (ii) services provided by stock/commodity exchanges and clearing houses, (iii) right to use goods, in cases where Value Added Tax (VAT) is not payable, and (iv) customised software, (to bring it on par with packaged software and other Information Technology (IT) services).

It was clarified that services like money changers, persons running games of chance and tour operators using contract carriage vehicles are also liable to service tax. Furthermore, in order to facilitate small service providers and to ensure optimum utilisation of the administrative resources, threshold limit of annual turnover to small service providers for full service tax exemption is proposed to be increased from Rs. 8 lakh per year to Rs.10 lakh per year. This exemption would benefit about 65,000 small service providers.

The Finance Bill, 2008 was passed by the Lok Sabha on April 29, 2008 and the major amendments are set out in Box I.

Section III

Revised Estimates 2007-08^{3, 4}

III.1 Deficit Indicators

The revised estimates for 2007-08 showed improvement in the key deficit

³ All comparisons of 2007-08 in this section are with the budget estimates for 2007-08 unless stated otherwise.

⁴ The analysis in this section is based on net of transaction relating to acquisition of RBI's stake in SBI by the Government. Statement 1 and Statement 3 provide information regarding inclusive and exclusive of SBI transactions wherever applicable. The acquisition cost of RBI's stake in SBI by the Government of India amounted to Rs 35,531 crore while the surplus transfer from RBI to Government of India on account of sale of RBI's stake in SBI to the Government amounted to Rs.34,308 crore.

indicators, *viz.*, revenue deficit (RD), gross fiscal deficit (GFD) and primary balance (PD), relative to GDP, over their budgeted levels. RD and GFD were lower than the budget estimates even in absolute terms. Reduction in deficit indicators was mainly on account of increased revenue receipts, both tax and non-tax, which more than offset the higher expenditure. Aggregate expenditure was higher than the budget estimates on account of revenue expenditure, particularly on interest payments and subsidies.

The RD constituting 1.4 per cent of the GDP in the revised estimates was lower by 11.2 per cent than the budgeted level (Statement 1). Revenue receipts increased by Rs.38,676 crore (7.9 per cent) over the budget estimates, which offset the increase in revenue expenditure by Rs.30,686 crore (5.5 per cent). The improvement in revenue account in terms of lower RD than the budgeted level, combined with decline in capital expenditure due to lower defence and non-defence capital outlay, resulted in decline in GFD by Rs.7,295 crore (4.8 per cent). In terms of GDP, the GFD declined by 0.2 percentage points to 3.1 per cent. Primary surplus at 0.6 per cent of GDP in the revised estimates for 2007-08 was about 3.5 times higher than the budget estimates (Table 2).

III.2 Revenue Receipts

Revenue receipts at 11.2 per cent of GDP in the revised estimates increased by 0.8 percentage point of GDP over the budgeted level. Of this, the increase in net tax revenue (gross tax revenue minus

Table 2: Major Fiscal Indicators - 2007-08 (RE) versus 2007-08 (BE)

(Rupees crore)				
Item	2007-08 (BE)	2007-08 (RE)	Variation (3 over 2)	
			Amount	Per cent
1	2	3	4	5
1. Revenue Deficit (3-2)	71,478	63,488	-7,990	-11.2
2. Revenue Receipts	4,86,422	5,25,098	38,676	8.0
i. Tax Revenue	4,03,872	4,31,773	27,901	6.9
ii. Non-Tax Revenue	82,550	93,325	10,775	13.1
3. Revenue Expenditure	5,57,900	5,88,586	30,686	5.5
<i>of which:</i>				
i. Subsidies	54,330	69,742	15,412	28.4
ii. Interest Payments	1,58,995	1,71,971	12,976	8.2
4. Gross Fiscal Deficit (1-5+6+7)	1,50,948	1,43,653	-7,295	-4.8
5. Other non-debt capital receipts	41,651	36,125	-5,526	-13.3
6. Capital Outlay (i+ii)	1,15,123	1,09,795	-5,328	-4.6
i. Defence	41,922	37,705	-4,217	-10.1
ii. Non-defence capital outlay	73,201	72,090	-1,111	-1.5
7. Net Lending (i-ii)	5,998	6,495	497	8.3
i. Loans	7,498	10,992	3,494	46.6
ii. Recoveries	1,500	4,497	2,997	199.8
8. Gross Primary Deficit (4-3(ii))	-8,047	-28,318	-20,271	251.9

State's share in central taxes) was Rs.27,901 crore (0.6 per cent of GDP) and that of non-tax revenue Rs.10,775 crore (0.2 per cent of GDP). The increase in gross tax revenue in the revised estimates was mainly on account of higher collection in corporation and personal income tax than the budgeted level (Statement 2). The increase in corporation tax by Rs.17,724 crore or 10.5 per cent was on account of higher profits backed by sound balance sheets of the corporates. The personal income tax increased by Rs.16,641 crore or 19.2 per cent mainly due to improved tax compliance. Non-tax revenue was also 13.1 per cent higher than the budget estimates on account of higher receipts from communication services by way of one time entry fee from dual technology users and new Unified Access Service Licence (UASL) operators.

III.3 Non-Debt Capital Receipts

The non-debt capital receipts (net of SBI transactions), comprising recoveries of loans and advances and other miscellaneous receipts including disinvestment receipts increased in 2007-08 (RE) by Rs.3,162 crore (or by 100.3 per cent). Out of this increase, the recovery of loans from State Governments was Rs.1,900 crore and from public sector enterprises was Rs.1,096 crore. Disinvestment proceeds increased by Rs.166 crore to Rs.1,817 crore. These proceeds were on account of disinvestment of small portion of Government equities in Rural Electrification Corporation (REC), Power Grid Corporation Ltd. (PGCL) and National Hydro-Electric Power Corporation (NHPC). As per the present arrangement, these proceeds are kept in the National Investment Fund (NIF) and

are maintained outside the Consolidated Fund of India.

III.4 Aggregate Expenditure

Aggregate expenditure (revenue and capital net of SBI transaction) at 14.3 per cent of GDP in the revised estimates for 2007-08 was 0.7 percentage point higher than the budgeted level, mainly due to increase in revenue expenditure. The revenue expenditure was higher on account of interest payments and subsidies. Increase in interest payments accounted for about 42.3 per cent of the total increase in revenue expenditure mainly due to higher payment of interest on market stabilisation scheme (MSS), as the volume of MSS increased substantially by Rs.1,30,768 crore over the budget estimates. The interest payments on MSS were Rs.13,382 crore in the revised estimates as against Rs.3,700 crore in the budget estimates. Adjusting for accrued interest of Rs.5,031 crore, the net interest payments on MSS was Rs.8,351 crore. The increase in subsidy accounted for 50.0 per cent of the total increase in revenue expenditure. The increase in the food subsidy was mainly due to increase in minimum support price and carrying cost. The fertiliser subsidies in the revised estimates were higher mainly due to increase in input costs and costs of imported fertilisers. Interest relief to debt stressed farmers and provision of interest subvention on short-term credit to farmers pushed up the interest subsidies. In the capital expenditure, while the defence capital expenditure declined, the non-defence capital outlay adjusted for SBI

transactions increased by Rs.3,358 crore (10.1 per cent). The increase in net lending (loans and advances minus recovery of loans) was on account of higher non-plan loan disbursements to State Governments for conversion/write-off of loans.

a) Plan and Non-Plan Expenditure

Expenditure pattern revealed that both the plan and non-plan expenditure increased in the revised estimates. Increase in non-plan expenditure was higher by 5.6 per cent mainly due to higher provisions for interest payments and subsidies (Table 3). Under plan expenditure, the allocation for Central Plan was lower due to net impact of increase in Agriculture, Industrial Policy and Promotion, Labour and Employment, Rural Development, Urban Development, Social Justice and Empowerment and Railways and decrease under Atomic Energy, Health and Family Welfare, Higher Education and Power. On other hand, the Central Assistance for State and UT Plans was higher in the revised estimates due to additional Central assistance for externally Aided Projects, additional Central assistance for other projects, *i.e.*, Accelerated Irrigation Benefit Programme and other water resources programme, National Social Assistance Programme, Jawaharlal Nehru National Urban Renewal Mission and *Rashtriya Krishi Vikas Yojana*.

III.5 Financing Pattern of GFD

The financing pattern of GFD revealed that the net borrowed funds were higher

Table 3: Plan and Non-Plan Expenditure in 2007-08

(Rupees crore)				
Item	2007-08 (BE)	2007-08 (RE)	Variation (3 over 2)	
			Amount	Per cent
1	2	3	4	5
Non-Plan				
1. Interest Payments	1,58,995	1,71,971	12,976	8.2
2. Grants to States and UTs	38,403	36,431	-1,972	-5.1
3. Interest Subsidies	2,276	2,658	382	16.8
4. Fertiliser Subsidy	22,451	30,501	8,050	35.9
5. Defence Services	96,000	92,500	-3,500	-3.6
Total Non-Plan Expenditure	4,75,421	5,01,849	26,428	5.6
Plan				
1. Central Plan	1,54,939	1,48,669	-6,270	-4.0
2. Central Assistance for State and UT Plans	50,161	58,855	8,694	17.3
Total Plan Expenditure	2,05,100	2,07,524	2,424	1.2

than borrowing requirements, which led to addition to cash balances (Table 4). To elaborate, the net borrowed funds were Rs.1,61,837 crore as against the GFD of Rs.1,43,653 crore resulting in build up of surplus cash balance amounting to Rs.18,184 crore or 12.7 per cent of GFD as against nil provision in the budget estimates. This development was mainly on account of higher than budgeted short-term borrowings amounting to Rs.26,628 crore in 91-day treasury Bills. The share of market borrowings in the financing of GFD increased from 73.4 per cent to 77.1 per cent in the budget estimates.

The actual position during April-February 2007-08, as per the information released by Controller General of Accounts (CGA), indicates that fiscal and revenue deficits, as percentage of the revised estimates, were substantially lower at 73.1 per cent and 86.6 per cent, respectively than the corresponding levels of 80.0 per cent and 98.8 per cent during April-February 2006-07. The

primary account recorded a much larger surplus during April-February 2007-08

Table 4: Financing Pattern of Gross Fiscal Deficit in 2007-08

(Rupees crore)		
Item	2007-08 (BE)	2007-08 (RE)
1	2	3
Gross Fiscal Deficit	1,50,948 (100.0)	1,43,653 (100.0)
<i>Financed by</i>		
Market Borrowings	1,10,827 (73.4)	1,10,727 (77.1)
Short term borrowings	500 (0.3)	25,497 (17.7)
a) 91 day treasury bills	0	26,628
b) 182 day treasury bills	500	-1,131
Securities against small savings	10,510 (7.0)	-1,802 (-1.3)
External Assistance	9,111 (6.0)	9,970 (6.9)
State provident fund	5,000 (3.3)	4,800 (3.3)
NSSF	17,850 (11.8)	11,174 (7.8)
Reserve Funds	738 (0.5)	3504 (2.4)
Deposit and Advances	-2,411 (-1.6)	7,808 (5.4)
Postal Insurance and Life Annuity Funds	1,261 (0.8)	3,045 (2.1)
Draw down of Cash Balances	0 (0.0)	-18,184 (-12.7)
Others	-2,438 (-1.6)	-12,886.1 (-9.0)

compared to that in the corresponding period last year (Box 2).

IV. Analysis of Budget Estimates 2008-09⁵

The Union Budget for 2008-09 was presented against the backdrop of strong revenue led fiscal consolidation since 2004-05 under the FRBM Act, 2003 and FRBM Rules, 2004. Notwithstanding the pressures from committed and non-discretionary expenditures such as interest payments, defence, pensions and subsidies, the fiscal stance for 2008-09 remains committed to the overarching objectives of achieving faster and more

inclusive growth by increasing allocations for social sectors including rural employment, education and health while at the same time ensuring adequate resources for improving physical infrastructure.

IV.1 Deficit Indicators

The key deficit indicators *viz.*, revenue deficit (RD) and gross fiscal deficit (GFD) as ratio to GDP in the budget estimates (BE) for 2008-09 are lower than that of revised estimates (RE) for 2007-08 broadly by the margins stipulated under the FRBM Rules, 2004. The FRBM-compliant road map envisages an annual reduction

Box 2: Financial Position of the Central Government during April-February 2007-08

The highlights of the Central Government finances for April-February 2007-08 as available from the Controller General of Accounts (net of SBI transactions) are as follows:

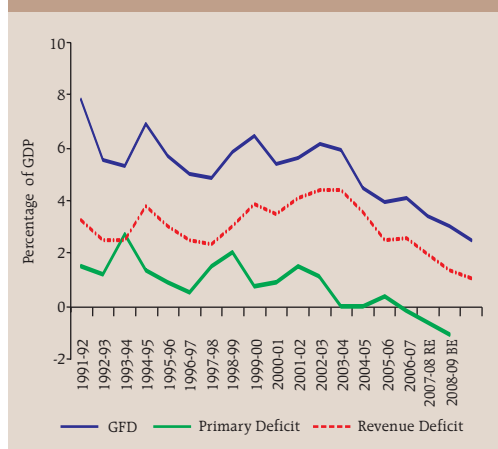
- Gross fiscal deficit of the Centre at Rs.1,04,179 crore constituted 73.1 per cent of the revised estimates for the year as compared with 80.0 per cent in the corresponding period of the previous year. This was due to higher tax and non-tax revenues.
- Revenue deficit at Rs.54,966 crore constituted 86.6 per cent of the revised estimates as compared with 98.8 per cent (Rs.82,411 crore) a year ago.
- Centre recorded a gross primary surplus of Rs.40,161 crore as compared with surplus of Rs.4,152 crore a year ago.
- Revenue receipts during April-February 2007-08 recorded growth of 26.8 per cent on top of increase of 27.8 per cent a year ago. Gross tax revenue increased by 26.8 per cent on account of higher collections under major taxes, *viz.*, corporation tax, income tax, customs duties and other taxes. Non-tax revenue rose by 25.2 per cent during April-February 2007-08 as compared with rise of 9.5 per cent during the corresponding period of the previous year.
- On the expenditure side, the aggregate expenditure increased by 16.5 per cent during April-February 2007-08 as compared with an increase of 14.3 per cent a year ago, reflecting increase in both revenue and capital expenditure.
- Aggregate expenditure at Rs.5,48,602 crore represented 81.4 per cent of the revised estimate as compared with 81.0 per cent a year ago. Revenue and capital and expenditure constituted 83.5 per cent and 67.1 per cent of the revised estimates as compared with 84.2 per cent and 59.3 per cent, respectively a year ago.

⁵ All comparisons of 2008-09 in this section are with the revised estimates for 2007-08 unless stated otherwise.

of at least 0.3 percentage points in fiscal deficit and 0.5 percentage points in the revenue deficit. While the FRBM targets relating to GFD are set to be achieved as per the mandate, the stipulated target of zero revenue deficit by 2008-09 under FRBM Rules, 2004 would be rescheduled primarily on account of a shift in plan priorities in favour of revenue expenditure-intensive programmes and schemes. Furthermore, there are systemic rigidities in containing non-plan expenditures in the short-term, particularly arising from committed and obligatory expenditures such as interest payments, pensions and defence. GFD/GDP ratio, however, would be lower than the FRBM target.

The RD, GFD and Primary Deficit (PD), as per cent of GDP, are budgeted to decline to 1.0 per cent, 2.5 per cent and -1.1 per cent in 2008-09 from 1.4 per cent, 3.1 per cent and -0.6 per cent, respectively, in 2007-08 (RE) (Statement 1 and Chart 1).

Chart 1: Deficit Indicators of the Centre



The RD in 2008-09 is budgeted to decline further by Rs.8,304 crore on top of the decline of Rs.16,734 crore in 2007-08 (RE), primarily reflecting higher tax receipts. Though there was increase in capital outlay [after adjusting for SBI transactions in 2007-08 (RE)] by Rs.10,258 crore, the improvement in revenue account coupled with higher non-debt capital receipts led to a decline of GFD by Rs.10,336 crore (Table 5).

In addition to the quantitative aspect, a major focus of the fiscal consolidation process has been to improve quality of the fiscal correction. Besides narrowing of the key deficit indicators in absolute terms, the quality of correction is also expected to improve by allocating higher proportion of the receipts towards capital outlay. The RD to GFD ratio is budgeted to decline to 41.4 per cent in 2008-09 from 44.2 per cent in 2007-08 (RE) and 56.3 per cent in 2006-07 (Chart 2). However, it may be noted that as per the FRBM target, the RD to GFD ratio was required to be nil during 2008-09.

IV.2 Revenue Receipts

The revenue receipts in 2008-09 are budgeted to increase by 14.8 per cent, significantly lower than the high growth of 20.9 per cent recorded in 2007-08. Though the slowdown in revenue receipts would be observed in both the tax and non-tax components, the deceleration in non-tax revenue (NTR) from 12.2 per cent in 2007-08 (RE) to 2.6 per cent in 2008-09 (BE) would be much sharper than that of corresponding

Table 5: Major Fiscal Indicators - 2008-09 (BE) versus 2007-08 (RE)

(Rupees crore)				
Item	2007-08 (RE)	2008-09 (BE)	Variation (3 over 2)	
			Amount	Per cent
1	2	3	4	5
1. Revenue Deficit (3-2)	63,488	55,184	-8,304	-13.1
2. Revenue Receipts (i+ii)	5,25,098	6,02,935	77,837	14.8
i. Tax Revenue	4,31,773	5,07,150	75,377	17.5
ii. Non-Tax Revenue	93,325	95,785	2,460	2.6
3. Revenue Expenditure	5,88,586	6,58,119	69,533	11.8
of which:				
i. Subsidies	69,742	71,431	1,689	2.4
ii. Interest Payments	1,71,971	1,90,807	18,836	11.0
4. Gross Fiscal Deficit (1+6+7-5)	1,43,653@	1,33,287	-10,366	-7.2
5. Non-debt capital receipts	1,817#	10,165	8,348	459.4
6. Capital Outlay (i+ii)	74,264#	84,522	10,258	13.8
i. Defence	37,705	48,007	10,302	27.3
ii. Non-defence capital outlay	36,559#	36,515	-44	-0.1
7. Net lending	6,495	3,746	-2,749	-42.3
i. Loans	10,992	8,243	-2,749	-25.0
ii. Recoveries	4,497	4,498	-1	0.0
8. Gross Primary Deficit (4-3(ii))	-28,318	-57,520	-29,202	103.1

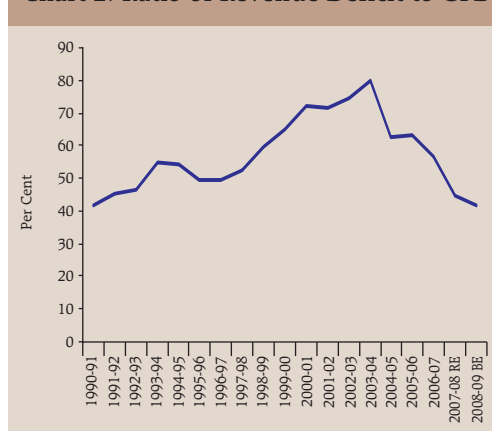
: Excluding receipt of Rs.34,308 crore and expenditure of Rs.35,531 crore under the one time transfer by RBI on account transfer of its stake in State Bank of India to Government of India.
@ : Including Rs.1,223 crore, which is the difference between the receipts and expenditure on account of transfer of RBI's stake in State Bank of India to Government of India.

deceleration in net tax revenue [gross tax revenue less States' share in Central taxes and amount transferred to National Calamity Contingency Fund (NCCF)] from 22.9 per cent to 17.5 per cent (Statement 2).

a) Tax Revenue

The gross tax collections, relative to GDP, are budgeted to further increase to 13.0 per cent in 2008-09 from 12.5 per cent in 2007-08 (RE) and 11.4 per cent in 2006-07, which would be the highest since the beginning of the last decade. The growth in corporation tax collections are budgeted to decelerate to 21.6 per cent in 2008-09 from a high of 29.0 per cent in 2007-08. The personal income tax is

estimated to decelerate the most to a growth of 16.6 per cent from 37.8 per cent in 2007-08, reflecting the high exemption limit and adjustment in the tax brackets.

Chart 2: Ratio of Revenue Deficit to GFD

Fringe Benefit Tax (FBT) is budgeted to increase to Rs.8,160 crore from Rs.6,800 crore in 2007-08. Income tax (including FBT) is budgeted to show a growth of 16.8 per cent as compared with 37.2 per cent in 2007-08. Reflecting the budget proposal of enhancing the threshold limit of exemption for small service providers, service tax growth is expected to decelerate to 27.4 per cent from a high of 34.6 per cent in 2007-08. Notwithstanding the continued policy of reducing the duty rates to levels of East Asian economies, the collections under customs duty are budgeted to remain strong at 18.0 per cent as compared with 16.7 per cent a year before. Excise duty collections are budgeted to show a lower growth of 7.8 per cent as against 8.8 per cent growth in the previous year. The revenue from securities transactions tax (STT) is estimated to increase to Rs.9,000 crore in 2008-09 from Rs.7,500 crore in 2007-08. Banking cash transaction tax is budgeted to generate Rs.550 crore in 2008-09, same as in 2007-08. Thus, the estimated buoyancies (percentage change in tax revenue as a ratio to percentage change in GDP) of major taxes in 2008-09, except custom duty, are budgeted to decline.

b) Non-Tax Revenues

Despite higher receipts from dividend and profits (increase of Rs. 7,096 crore) and interest receipts (an increase of Rs. 1,671 crore), the NTR is budgeted to increase only by Rs. 2,460 crore (2.6 per cent) in 2008-09, as against an increase by Rs.10,120 crore (12.2 per cent) in 2007-

08. This would mainly be due to decline in receipt under other communication services by Rs. 7,580 crore, as there was an one time increase by way of entry fee from dual technology users and new Unified Access Service Licence (UASL) operators in 2007-08.

IV.3 Non-Debt Capital Receipts

The recoveries of loans and advances which are mainly from the State Governments and central public sector enterprises (CPSUs) are estimated to remain the same at the 2007-08 level of Rs. 4,497 crore. The other non-debt capital receipts are budgeted at Rs.10,165 crore as against Rs.1,817 crore (excluding one time receipts of Rs.34,308 crore from the Reserve Bank on account of transfer of its stake in the SBI to the Government) in 2007-08. These receipts are disinvestment proceeds from Rural Electrification Corporation (REC) and National Hydro-Electric Power Corporation (NHPC) amounting to Rs.1,165 crore and Rs.9,000 crore from Specified Undertaking of the Unit Trust of India (SUTI).

IV.4 Aggregate Expenditure

While the process of fiscal consolidation in the recent years has been largely revenue-led, the Union Budget has proposed to control the growth of revenue expenditure. The growth in revenue expenditure in 2008-09 is budgeted to slow down to 11.8 per cent from 14.4 per cent in 2007-08. A noteworthy feature of the containment of the growth of revenue expenditure would be the significantly lower growth

in the two major components of subsidies, *viz.*, food and fertilizer subsidies (Table 6). The total subsidies are budgeted to decelerate by 2.4 per cent as against a growth of 22.1 per cent in 2007-08, leading to decline in its ratio to GDP by 0.2 percentage points to 1.3 per cent in 2008-09 (Statement 2).

In the above context, it may be noted that the Government has been issuing bonds to the oil marketing companies, fertilizer companies and the Food Corporation of India (FCI) in lieu of subsidies. These bonds are liabilities of the Government but are currently recorded below the line not accounting for RD and GFD. The budget 2008-09 has recognised that there is need to bring these liabilities into the fiscal accounting. As a first step, these are shown in the Budget at a Glance for the revised estimates for 2007-08 amounting to Rs.18,757 crore of which Rs.11,257 crore were in respect of oil marketing companies and Rs.7,500 crore for fertilizer companies.

Table 6: Major Subsidies		
(Rupees crore)		
Item	2007-08 (RE)	2008-09 (BE)
1	2	3
Subsidies	69,742	71,431
<i>of which:</i>	(1.5)	(1.3)
i. Food	31,546 (0.7)	32,667 (0.6)
ii. Fertiliser	30,501 (0.6)	30,986 (0.6)
iii. Petroleum	2,882 (0.1)	2,884 (0.1)
iv. Interest subsidy	2,658 (0.1)	2,829 (0.1)
v. Other subsidies	1,395 (0.0)	1,565 (0.0)

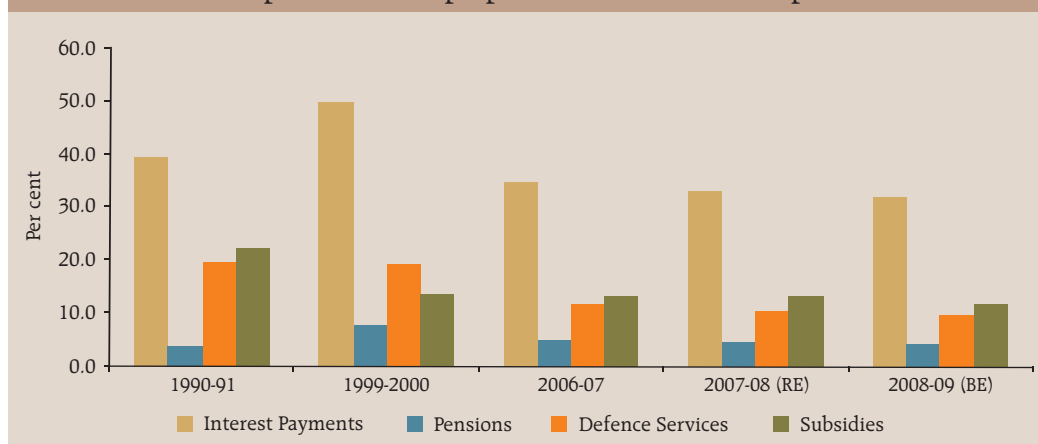
Note : Figures in parantheses are percentages to GDP

Interest payments are budgeted to show an increase of Rs.18,836 crore (or 11.0 per cent) due to higher requirement for interest on market loans, Market Stabilisation Scheme (MSS) and interest on special securities issued to Oil Marketing Companies, FCI and Fertiliser Companies. The interest payments on MSS are budgeted to increase by Rs. 13,234 crore over the revised estimates. Adjusting for accrued interest, the net increase would be Rs.5,607 crore.

The ratios of interest payments to revenue receipts have declined along with those for pensions, defence and subsidies. This has also been enabled by improved buoyancy in revenue receipts in the recent years (Chart 3).

The capital expenditure comprising capital outlay and loans and advances is budgeted to decline by 23.2 per cent (Statement 3). Adjusting the impact of capital expenditure of Rs.35,531 crore incurred for transferring the Reserve Bank's stake in the SBI, the capital expenditure is budgeted to increase by 8.8 per cent in 2008-09. This order of increase would still be significantly lower than the increase of 24.0 per cent in 2007-08. The defence capital outlay, however, is estimated to increase by Rs. 10,302 crore (by 27.3 per cent) to Rs.48,007 crore. The non-defence capital outlay adjusted for SBI transactions is budgeted broadly around the level of 2007-08 (RE).

Chart 3: Trends in Major Items of Revenue Expenditure as a proportion of Revenue Receipts



a) Plan and Non-Plan Expenditure

An analysis of the expenditure pattern shows the deceleration in the growth of both non-plan and plan components, particularly the non-plan component even after the exclusion of expenditure incurred on account of transferring the Reserve Bank's stake in the SBI. The major increase in the non-plan expenditure is proposed to occur in respect of interest payments, reflecting the continued dependence of debt resources to finance Government expenditure as well as provisioning for interest on special securities issued to Oil Marketing Companies and Food Corporation of India. Non-Plan expenditure in defence services is budgeted to rise sizeably reflecting enhanced provision for normal growth in pay and allowances and maintenance expenditure and for modernisation of defence services. The Budget also proposes to provide higher grants to the States as per the Twelfth Finance

Commission (TFC). As far as Plan expenditure is concerned, the increase in Central Plan outlay reflects enhanced allocation for various social sector expenditures. The Central Assistance for State and UT Plans is also budgeted to increase reflecting allocations for various programmes relating to irrigation, education, roads and other infrastructure, etc. (Table 7).

IV.5 Financing of GFD

An analysis of the financing pattern of GFD reveals decline in the share of net market borrowings (excluding allocations budgeted under MSS) to 74.3 per cent of the GFD in 2008-09 from 77.1 per cent in 2007-08. On the other hand, the share of external assistance would increase to 8.2 per cent from 6.9 per cent in 2007-08. Investments by the National Small Savings Fund (NSSF) in the special Central Government securities are budgeted to finance 7.4 per cent of GFD, as against a negative of 1.3 per cent last year. During 2008-09, the budget expects

Table 7: Plan and Non-Plan Expenditure in 2008-09

(Rupees crore)				
Item	2007-08 (RE)	2008-09 (BE)	Variation (3 over 2)	
			Amount	Percent
1	2	3	4	5
Interest Payments	1,71,971	1,90,807	18,836	11.0
Food Subsidy	31,546	32,667	1,121	3.6
Interest Subsidies	2,658	2,829	171	6.4
Police	14,154	15,562	1,408	9.9
Agriculture & Allied services	2,996	4,972	1,976	66.0
Pensions	24,193	25,085	891	3.7
Defence Expenditure	92,500	1,05,600	13,100	14.2
Grants to States and UTs	36,431	43,294	6,863	18.8
Other Communication Services	1,516	2,066	550	36.3
Capital Outlay	14,104*	10,567	-3,537	-25.1
Other non-plan expenditure	79,907	76,878	-29	0.0
Total Non-Plan	4,66,318	5,07,498	41,180	8.8
Central Plan	1,48,669	1,79,954	31,285	21.0
Central Assistance for State and UT Plans	58,855	63,432	4,577	7.8
Total Plan	2,07,524	2,43,386	35,862	17.3

*: Net of acquisition cost of RBI' stake in SBI by the Government of India amounting to Rs.35,531 crore.

draw down of cash balances to finance 5.4 per cent of GFD, as against built up of cash balances amounting to 12.7 per cent of GFD in the previous year (Table 8).

IV.6 Sectoral Allocation of Expenditure

The sectoral allocation of expenditure under certain developmental heads indicated a continued Government thrust on agriculture and rural development. The share of education in total expenditure was budgeted to increase in 2008-09 (Table 9).

IV.7 Devolution and Transfer of Resources to States and Union Territories

The devolution of resources to the State Governments and Union Territories

shows that the net resource transfer would increase by 16.6 per cent to Rs.3,04,960 crore in 2008-09. The taxes transferred to the States and Union Territories would increase by 17.7 per cent to Rs.1,78,765 crore reflecting buoyant tax collections, grants would also increase by 17.7 per cent to Rs.1,24,746 crore as a result of higher grants under the TFC award (Table 10).

IV.8 Eleventh Plan Projections vis-a-vis the Budget Estimates for 2008-09

The projections indicated in the Approach Paper to the Eleventh Plan for the major fiscal indicators vis-a-vis the budget estimates for 2008-09 are set out in Table 11. As it may be seen, the key fiscal indicators such as revenue deficit, non-plan expenditure and gross tax

Table 8: Financing Pattern of Gross Fiscal Deficit in 2008-09

(Rupees crore)		
Item	2007-08 (RE)	2008-09 (BE)
1	2	3
Gross Fiscal Deficit	1,43,653	1,33,287
Financed by		
Market Borrowings	1,10,727 (77.1)	99,000 (74.3)
Short term borrowings (a + b)	25,497 (17.7)	14,000 (10.5)
a) 91 day treasury bills	26,628	15,000
b) 182 day treasury bills	-1,131	-1,000
Securities against Small Savings	-1,802 (-1.3)	9,873 (7.4)
External Assistance	9,970 (6.9)	10,989 (8.2)
State Provident Fund	4,800 (3.3)	4,800 (3.6)
NSSF	11,174 (7.8)	53 (0.0)
Reserve Funds	3,504 (2.4)	-972 (-0.7)
Deposit and Advances	7,807 (5.4)	8,629 (6.5)
Postal Insurance and Life Annuity Funds	3,045 (2.1)	4,123 (3.1)
Others	-12,885 (-9.0)	-24,433 (-18.3)
Draw down of Cash Balances	-18,184 (-12.7)	7,225 (5.4)

Note : Figures in parentheses are percentages to GFD.

revenue relative to GDP are budgeted higher than the Eleventh Plan projections for 2008-09.

IV.9 Additional Disclosures on Revenues and Guarantees

The Government has reiterated its commitment to augment the tax collections and improve the tax/GDP ratio through liquidation of arrears of tax revenues and prevention of further accretions to the stock. In the Budget 2008-09, the Government continued with the practice of presenting three statements relating to revenue, *viz.*, on tax revenue raised but not realised; on

Table 9: Expenditure on Select Developmental Heads

(Rupees crore)		
Item	2007-08 (RE)	2008-09 (BE)
1	2	3
Subsidies	69,742	71,431
Agriculture	62,441 (9.3)	68,612 (9.1)
Education	25,428 (3.8)	33,924 (4.5)
Health, family welfare and sanitation	13,186 (2.0)	15,250 (2.0)
Rural Development	17,385 (2.6)	18,562 (2.5)
Irrigation	384 (0.1)	567 (0.1)

Note: 1) Figures in parenthesis are percentages to total expenditure.

2) The total expenditure for 2007-08 (RE) has been adjusted to exclude transactions relating to transfer of the Reserve Bank's stake in the State Bank of India.

arrears of non-tax revenue; and tax expenditure as well as two statements relating to the asset-liability position of the Government introduced in the preceding two years. These statements,

Table 10: Resource Transfer to States and Union Territories

(Rupees crore)			
Item	2007-08 (RE)	2008-09 (BE)	Variation (per cent) (Col.3 over Col.2)
1	2	3	4
States and UTs Share of			
Taxes and Duties	1,51,837	1,78,765	17.7
Grants	1,06,015	1,24,746	17.7
Non-Plan	36,431	43,294	18.8
Plan	69,584	81,452	17.1
Loans	6,250	4,115	-35.6
Non-Plan	89	89	0.0
Plan	6,161	4,026	-34.7
Recovery of Loan and Advances	2,503	2,666	6.5
Net Resource Transfers	2,61,599	3,04,960	16.6

UT : Union Territories.

Table 11: Eleventh Plan Projections vis-à-vis the Budget Estimates

(As per cent to GDP)		
Item	2008-09	
	Eleventh Plan Projections	Budget Estimates
1	2	3
Centre		
1. Gross Budgetary Support to Plan of which	4.51	4.59
Plan revenue Expenditure	2.34	3.96
2. Total Non-Plan of which	9.16	9.57
(i) Interest Payments	3.18	3.60
(ii) Defence	2.20	1.99
(iii) Non-Plan grants to States	0.72	0.82
(iv) Subsidies	1.03	1.35
3. Total Expenditure	13.67	14.16
4. Gross tax revenue	11.83	12.97
less : Share of States	3.22	3.37
5. Net Tax to Centre	8.62	9.56
6. Non-tax Revenue	1.82	1.81
7. Total Revenue Receipts	10.44	11.37
8. Gross Fiscal Deficit	3.00	2.51
9. Revenue Deficit	0.00	1.04

with the exception of the statement on tax expenditure, are in accordance with Rule 6 of the FRBM Rules, 2004. As per these statements the estimates of tax revenue raised but not realised were placed at Rs.99,293 crore, arrears of non-tax revenue at Rs.53,941 crore and the revenue forgone on account of major tax preferences at Rs.2,39,712 crore for 2006-07. The revenue foregone constituted 50.9 per cent of the gross tax collections in 2006-07. The Union Budget 2008-09 projected the revenue foregone for 2007-08 at Rs.2,78,644 crore during 2007-08, constituting around 48.0 per cent of the gross tax collections. The outstanding guarantees of Government of India declined by 0.7 per cent of GDP during 2006-07 against the stipulated accretion

limit of 0.5 per cent of GDP placed under Rule 3(3) of the FRBM Rules, 2004. The statement on asset register indicated that the cumulative assets at the end of 2006-07 were around Rs.5,89,524 crore with physical assets amounting to Rs.1,42,774 crore and financial assets of Rs.4,46,750 crore. With the provision of the new statements, the Government has met the stipulations under FRBM Rules.

V. Assessment of the Union Budget 2008-09

V.1 Fiscal Correction and Consolidation

On the strength of sound macroeconomic management, continued strong revenue-led fiscal consolidation and monetary stability, the deficit targets stipulated under FRBM were on track in the revised estimates for 2007-08. Fiscal performance during the last four years under the FRBM framework in relation to the quantitative goals under the Act has been encouraging. In the penultimate year for meeting the FRBM targets, it was required under FRBM Rules, 2004 to eliminate RD and reduce GFD-GDP ratio to 3.0 per cent. However, the Union Budget 2008-09 proposes to reduce RD-GDP ratio to 1.0 per cent and GFD-GDP ratio to 2.5 per cent (Table 12).

The FRBM target for GFD is budgeted to be achieved as per mandate, while that relating to RD would be rescheduled to 2009-10. According to the Budget 2008-09, the target relating to RD would be

Table 12: Rolling Target under FRBM

(As per cent GDP)								
Item	2003-04	2004-05	2005-06	2006-07	2007-08 (RE)	2008-09 (BE)	Targets for	
							2008-09	2009-10
1	2	3	4	5	6	7	8	9
Revenue Deficit	3.6	2.5	2.6	1.9	1.4	1	0	0
Gross Fiscal Deficit	4.5	4.0	4.1	3.4	3.1	2.5	3	3
Gross Tax Revenue	9.2	9.7	10.4	11.4	12.5	13	12.3	13.5
Total outstanding liabilities at end of the year	63.0	63.3	63.1	61.2	61.7	57.7	58.6	55.7

required to be rescheduled primarily on account of enhanced budgetary allocation for social sector in particular education, health and rural employment. These allocations have been made to generate employment in rural areas while also providing better connectivity and improved quality of life particularly through enhanced access to health and education facilities. Reflecting this, plan revenue expenditure is budgeted at around 4.0 per cent of GDP as against 3.7 per cent in 2007-08 and 3.4 per cent in 2006-07. The non-plan revenue expenditure as proportion of GDP is budgeted at 8.4 per cent as against 8.8 per cent in 2007-08 and 9.0 per cent in 2006-07. Given the reduction in non-plan revenue expenditure by 0.4 percentage points and enhancement in revenue receipts by 0.4 percentage points the correction would have been much higher had the plan revenue expenditure not been increased.

The fiscal correction and consolidation process of the Government under the FRBM framework essentially has been revenue-

led. The robust economic growth and macro-economic stability achieved during the past four years generally resulted in higher than anticipated tax receipts with the tax-GDP ratio moving up from 9.2 per cent in 2003-04 to 12.5 per cent in 2007-08 (RE) and estimated at 13.0 per cent for 2008-09 (Table 13). Higher growth in tax collections is due to combined effect of a balanced tax structure based on reasonable rates with fewer exemptions, wider coverage of tax payers, better compliance and more efficient tax administration. The expenditure policy is aimed at containing non-plan expenditure and providing adequately fast priority spending on social development and

Table 13: Gross Tax Revenue

(Per cent to GDP)		
Year	Budgeted	Actual
1	2	3
2001-02	9.2	8.2
2002-03	9.6	8.8
2003-04	9.2	9.2
2004-05	10.2	9.7
2005-06	10.5	10.4
2006-07	11.2	11.4
2007-08	12.0	12.5*

*: Revised Estimates.

infrastructure needs. The fiscal policy strategy is accommodative of the spending priority associated with interventions relating to inclusive growth, human capital development and critical infrastructure development to achieve the growth objectives set out for the Eleventh Five Year Plan.

V.2 Debt Waiver and Debt Relief

The Finance Minister in his Budget Speech mentioned that about 30 million small and marginal farmers and 10 million other farmers will benefit from the proposed Debt Waiver and Debt Relief Scheme. The total value of overdue loans to be waived is estimated at Rs.50,000 crore and OTS relief on the overdue loan is estimated at Rs.10,000 crore.

V.3 Sixth Pay Commission

As per the Sixth Pay Commission which submitted its Report on March 24, 2008, the likely impact of pay hike on the Government finances would be Rs.12,561 crore per annum (Table 14). Out of this

Rs.12,561 crore, Rs.9,242 crore would be borne by the Central Budget and the remaining Rs.3,319 crore would be borne by the Railway Budget. The Commission, however, projects that there would be savings of Rs.4,586 crore per annum on account of the recommended rectification of commutation pension formula, revision of scheme for payment pension commutation, revision of scheme for payment of advances and lateral movement of Defence Forces personnel. Thus, the net additional financial burden for Government would be Rs.7,975 crore per annum. The Commission, however, expects that there may be no accrual of savings in the first year of the implementation of the recommendations.

Since the revision of pay scales and pension would be effected retrospectively from January 1, 2006, their would be one time expenditure on account of payment of arrears of about Rs.18,060 crore. Of this, Rs.12,642 crore would be borne by

Table 14: Financial Impact per annum

Sr.No	Head	Implications (Rupees crore)
1	Revised pay scales for civilians	3,828
2	Revised pay scales for Defence Forces	1,640
3	Military Service Pay for Defence Forces	1,497
4	Transport Allowances (civilians and Defence Forces)	241
5	HRA (civilians and Defence Forces)	1,100
6	Pension (civilians and Defence Forces)	1,365
7	Gratuity (civilians and Defence Forces)	410
8	Leave encashment (civilians and Defence Forces)	180
9	Defence forces allowances	1,750
10	Other allowances	400
11	Miscellaneous (up-gradations of individual posts, individual allowances)	150
	Total	12,561

the Budget of the Central Government and the remaining Rs.5,418 crore by the Railway Budget. On the presumption that the Government would pay arrears in two instalments in different years as recommended in the Report, the total impact on account of pay hike and arrears works out to Rs.15,563 crore for the Central Budget for 2008-09. This amount constitutes 0.3 per cent of GDP for 2008-09. Accordingly, the revenue deficit and gross fiscal deficit would increase to 1.3 per cent and 2.8 per cent from the Budget estimates of 1.0 per cent and 2.5 per cent, respectively. However, the likely increase in income tax collections consequent to pay hike, may partially mitigate the impact on key deficit indicators.

V.4 Off Balance Sheet Liabilities

Acknowledging that the RD and GFD are understated to the extent liabilities of the Government on account of oil, food and fertilizer bonds are currently below the line, the budget as a first step to bring these liabilities into fiscal accounting has indicated Rs.18,757 crore of bonds issued to oil marketing companies (Rs.11,257 crore) and fertilizer companies (Rs.7,500 crore) in lieu of subsidies during 2007-08 revised estimates. At this level, these bonds accounted for about 0.4 per cent of GDP.

V.5 Inflation

The Union Budget 2008-09, in its 'Medium-term Fiscal Policy Statement', assumes 13 per cent growth in nominal

GDP in 2008-09. The Statement further notes that "the annual GDP growth that averaged around 8.7 per cent is set to accelerate further in the range of 9-10 per cent, as set out in the Eleventh Five Year Plan". Assuming the real GDP growth to be on this trend for 2008-09, implicit inflation works out to about 4 per cent. The various measures announced in the Budget are expected to reduce the input costs to some extent in key items such as metal scrap, machinery, chemical and cement. The CENVAT rate has been further reduced to 14 per cent in 2008-09 from 16 per cent in 2007-08. Similarly, excise duty in case of certain sectors such as pharmaceuticals, automobiles, paper and paper board has been reduced.

The annual average inflation of 4.7 per cent during 2007-08 which was lower than 5.4 per cent in the previous year, however, has picked up since the fourth quarter of 2007-08. As on April 19, 2008 the headline inflation stood at 7.6 per cent as against 6.1 per cent a year ago. This surge in inflation mainly emanated from a number of supply side pressures. First, in order to partially off-set the increase in the average price of Indian basket of international crude oil price by 27.6 per cent from US \$ 62.4 per barrel during 2006-07 to US \$ 79.7 per barrel in 2007-08 (US \$ 99.4 a barrel by March 2008), the domestic retail prices of petrol and diesel were revised upwards by 4.5 per cent and by 3.25 per cent, respectively, with effect from February 15, 2008.

Second, the prices of freely priced petroleum products such as naphtha, bitumen, furnace oil and aviation turbine fuel have hardened continuously along with the increase in international crude oil price. Third, prices of wheat and oil seeds have risen and the steel prices was adjusted upward in March 2008 due to surge in international prices. It may be noted that, domestic prices of kerosene and liquefied petroleum gas (LPG) have also not been raised by the Government since April 2002 and November 2004, respectively, on grounds of societal concerns. Furthermore, to contain fuller pass-through of higher international crude prices to domestic prices, the Government, has extended the subsidy schemes for these products, which were available through the public distribution system to March 2010. The Government has also announced to bear a higher share of the burden of the under recoveries in the retail sale of petroleum products by oil marketing companies through issuance of oil bonds.

In order to contain inflationary pressures, the Government initiated a number of fiscal and supply augmenting measures recently. In order to augment cement supply in the domestic market, on April 14, 2008, the customs duty on inputs of cement was reduced from 12.5 per cent to nil and countervailing duty and special additional duty were withdrawn. The Government also took several measures with the aim of

containing food price inflation. Customs duty on import of pulses was reduced to zero on June 8, 2006 and the period of validity of import of pulses at zero duty, which was initially available up to March 2007, was first extended to August 2007 and further to March 2009. A ban was imposed on export of pulses with effect from June 22, 2006 and the period of validity of prohibition on exports of pulses, which was initially applied up to end-March 2007, was further extended up to end-March 2008. In March 2008, the customs duty on import of rice was reduced from 70 per cent to zero per cent up to March 2009; customs duties on import of crude and refined edible oil were reduced from a range of 40-75 per cent to 20-27.5 per cent; full exemption from customs duty available to import of wheat has been extended beyond the expiry date of December 2007 and wheat flour has been fully exempted from customs duty; the minimum export prices for basmati and non-basmati rice were raised to US \$ 900 and US \$ 650 per tonne, respectively; and export of all edible oils were prohibited with immediate effect from March 18, 2008. These measures are expected to help in containing inflation and inflationary expectations.

VI. Conclusion

The progress on fiscal consolidation front has been satisfactory under the FRBM framework. The FRBM mandated fiscal correction path was helpful in

improving the credibility of the Government with respect to fiscal adjustment. The fiscal consolidation strategy, however, has been essentially revenue led as reflected in sustained rise in the tax-GDP ratio. The robust economic growth and macroeconomic stability achieved during the past four years generally resulted in higher than anticipated tax revenues and created fiscal space to meet increasing demand for resources.

The Budget 2008-09 marks the path of fiscal correction with emphasis on quality in expenditure in accordance with FRBM goals. In case of revenue deficit, though the budget has complied with the FRBM target of annual reduction of 0.5 per cent of GDP, however, the revenue deficit is still placed at 1.0 per cent of GDP. This is on account of a conscious shift in expenditure in favour of health and education under the social services which have a large revenue expenditure component. While this shift is a welcome measure, there would be a pressure on the revenue account on account of implementation of Sixth Pay Commission reward to the extent of 0.3 per cent of GDP.

The total plan expenditure commonly identified with developmental expenditure is budgeted to be above 183.0 per cent of GFD in 2008-09. This implies a continuation of a healthy trend of plan expenditure exceeding GFD achieved in 2007-08 (about 136.0 per cent) for the third

time since the beginning of economic reform process. In this context, it may be mentioned that a large component (more than 80 per cent) of this plan expenditure is in the revenue account. This development needs to be seen in conjunction with stagnation of the non-defence capital outlay relative to GDP at less than 1.0 per cent (for example, 0.7 per cent in 2008-09 and 0.8 per cent in the revised estimates for 2007-08).

The ongoing reforms and fiscal correction initiatives would provide support to rising domestic demand and investment both of which are main drivers of economic growth. While meeting the spending requirements in consonance with the policy objectives, the tax reform would continue to benefit the buoyant behaviour of tax receipts. The increased buoyancy in tax revenue, control of consumption expenditure, containing subsidies, generating resources for investment, improving physical infrastructure and creating human capital would be core focus areas in the medium-term. The task ahead to achieve elimination of revenue deficit is more complex and challenging. Though the endeavour in this regard is expected to be facilitated by continued buoyancy in revenues on the strength of a higher growth trajectory, the risk of volatility in international prices, fluctuating interest rates and the global growth trends may influence the budgetary approach to the management of revenue deficit in

accordance with the revised revenue deficit targets in the medium-term. The process of fiscal consolidation would need to be sustained through improvement in tax-GDP ratio, moderation in growth of non-tax

revenue, reprioritization and improving the quality of expenditure including promotion of capital expenditure to boost infrastructure development while ensuring adequate resources for social sectors like health and education.

Statement 1 : Budget at a Glance

(Rupees crore)				
Items	2006-07 (Accounts)	2007-08 (Budget Estimates)	2007-08 (Revised Estimates)	2008-09 (Budget Estimates)
1	2	3	4	5
1. Revenue Receipts (i + ii)	434,387	486,422	525,098	602,935
i) Tax Revenue (Net to Centre)	351,182	403,872	431,773	507,150
ii) Non-tax Revenue	83,205	82,550	93,325	95,785
of which: Interest Receipts	22,524	19,308	17,464	19,135
2. Capital Receipts	149,000	194,099	184,275	147,949
<i>of which:</i>		(154,099) *	(149,966) #	
i) Market Borrowings	114,801	110,827	110,727	99,000
ii) Recoveries of Loans	5,893	1,500	4,497	4,497
iii) Disinvestment of equity in PSUs	534	41,651	36,125	10,165
		(1,651) *	(1,816) #	
3. Total Receipts (1+2)	583,387	680,521	709,373	750,884
		(640,521) *	(675,064) #	
4. Revenue Expenditure (i + ii)	514,609	557,900	588,586	658,119
i) Non-Plan	372,191	383,546	412,975	448,352
ii) Plan	142,418	174,354	175,611	209,767
5. Capital Expenditure (i + ii)	68,778	122,621	120,787	92,765
i) Non-Plan	41,336	(82,621) *	(85,256) \$	
		91,875	88,874	59,146
		(51,875) *	(53,343) \$	
ii) Plan	27,442	30,746	31,913	33,619
6. Total Non-Plan Expenditure (4i + 5i)	413,527	475,421	501,849	507,498
		(435,421) *	(466,318) \$	
<i>of which:</i>				
i) Interest Payments	150,272	158,995	171,971	190,807
ii) Defence	85,510	96,000	92,500	105,600
iii) Subsidies	57,125	54,330	69,742	71,431
7. Total Plan Expenditure (4ii + 5ii)	169,860	205,100	207,524	243,386
8. Total Expenditure (6+7=4+5)	583,387	680,521	709,373	750,884
		(640,521) *	(673,842) \$	
9. Revenue Deficit (4-1)	80,222	71,478	63,488	55,184
	(1.9)	(1.5)	(1.4)	(1.0)
10. Gross Fiscal Deficit (8-(1+2ii+2iii))	142,573	150,948	143,653	133,287
	(3.5)	(3.3)	(3.1)	(2.5)
			(142,431) \$ #	
			(3.0)	
11. Gross Primary Deficit (10-6i)	-7,699	-8,047	-28,318	-57,520
	-(0.2)	-(0.2)	-(0.6)	-(1.1)
			-(29,540) \$ #	
			-(0.6)	
12. Net RBI Credit to Centre (RBI Records)	-3,024	0.0	-112,489	0.0
			(2.4)	

.. : Not available

* : Excludes an amount of Rs.40,000 crore on account of transactions relating to transfer of RBI's stake in SBI to the Government.

: Net of transfer of profit from RBI to the Union Government amounting to Rs.34,309 crore.

\$: Net of acquisition cost of RBI's stake in State Bank of India at Rs.35,351 crore.

Notes : 1) Figures in parentheses are percentages to GDP.

2) Capital Receipts are net of repayments.Receipts in respect of Market Stabilisation Scheme are also excluded.

3) Market borrowings include dated securities and 364 day Treasury Bills.

Source : Budget documents of Government of India, 2008-09.

Statement 1 : Budget at a Glance (Concl.)

(Rupees crore)

Items	Variation					
	Col. 4 over Col. 3		Col. 4 over Col. 2		Col. 5 over Col. 4	
	Amount	Per cent	Amount	Per cent	Amount	Per cent
1	6	7	8	9	10	11
1. Revenue Receipts (i+ii)	38,676	8.0	90,711	20.9	77,837	14.8
i) Tax Revenue (Net to Centre)	27,901	6.9	80,591	22.9	75,377	17.5
ii) Non-tax Revenue	10,775	13.1	10,120	12.2	2,460	2.6
of which: Interest Receipts	-1,844	-9.6	-5,060	-22.5	1,671	9.6
2. Capital Receipts	-9,824	-5.1	35,275	23.7	-36,326	-19.7
	-(4,133)	-(2.7)	(966)	(0.6)	-(2,017)	-(1.3)
<i>of which:</i>						
i) Market Borrowings	-100	-0.1	-4,074	-3.5	-11,727	-10.6
ii) Recoveries of Loans	2,997	199.8	-1,396	-23.7	0	0.0
iii) Disinvestment of equity in PSUs	-5,526	-13.3	35,591	6,665.0	-25,960	-71.9
	(165)	(10.0)	(1,282)	(240.1)	(8,349)	(459.7)
3. Total Receipts (1+2)	28,852	4.2	125,986	21.6	41,511	5.9
	(34,543)	(5.4)	(91,677)	(15.7)	(75,820)	(11.2)
4. Revenue Expenditure (i + ii)	30,686	5.5	73,977	14.4	69,533	11.8
i) Non-Plan	29,429	7.7	40,784	11.0	35,377	8.6
ii) Plan	1,257	0.7	33,193	23.3	34,156	19.4
5. Capital Expenditure (i + ii)	-1,834	-1.5	52,009	75.6	-28,022	-23.2
	(2,635)	(3.2)	(16,478)	(24.0)	(7,509)	(8.8)
i) Non-Plan	-3,001	-3.3	47,538	115.0	-29,728	-33.4
	(1,468)	(2.8)	(12,007)	(29.0)	(5,803)	(10.9)
ii) Plan	1,167	3.8	4,471	16.3	1,706	5.3
6. Total Non-Plan Expenditure (4i + 5i)	26,428	5.6	88,322	21.4	5,649	1.1
	(30,897)	(7.1)	(52,791)	(12.8)	(41,180)	(8.8)
<i>of which:</i>						
i) Interest Payments	12,976	8.2	21,699	14.4	18,836	11.0
ii) Defence	-3,500	-3.6	6,990	8.2	13,100	14.2
iii) Subsidies	15,412	28.4	12,617	22.1	1,689	2.4
7. Total Plan Expenditure (4ii + 5ii)	2,424	1.2	37,664	22.2	35,862	17.3
8. Total Expenditure (6+7=4+5)	28,852	4.2	125,986	21.6	41,511	5.9
	(33,321)	(5.2)	(90,455)	(15.5)	(77,042)	(11.4)
9. Revenue Deficit (4-1)	-7,990	-11.2	-16,734	-20.9	-8,304	-13.1
10. Gross Fiscal Deficit (8-(1+2ii+2iii))	-7,295	-4.8	1,080	0.8	-10,366	-7.2
	-(8,517)	-(5.6)	-(142)	-(0.1)	-(9,144)	-(6.4)
11. Gross Primary Deficit (10-6i)	-20,271	251.9	-20,619	267.8	-29,202	103.1
	-(21,493)	(267.1)	-(21,841)	(283.7)	-(27,980)	(94.7)
12. Net RBI Credit to Centre (RBI Records)	-112,489	-	-109,465	3,619.9	112,489	-

Statement 2: Transactions on Revenue Account

(Rupees crore)

Items	2006-07 (Accounts)	2007-08 (Budget Estimates)	2007-08 (Revised Estimates)	2008-09 (Budget Estimates)
1	2	3	4	5
I. Revenue Receipts (A+B)	434,387	486,422	525,098	602,935
A. Tax Revenue (Net to Centre) (a-b-c)	351,182	403,872	431,773	507,150
a) Gross Tax Revenue	473,512	548,122	585,410	687,715
<i>of which :</i>	(11.4)	(11.8)	(12.5)	(13.0)
1 Corporation Tax	144,318	168,401	186,125	226,361
2 Taxes on Income other than Corporation Tax	80,397 *	93,629 *	110,270 *	128,764 *
3 Customs Duty	86,327	98,770	100,766	118,930
4 Union Excise Duty	117,613	130,220	127,947	137,874
5 Service Tax	37,598	50,200	50,603	64,460
6 Securities Transaction Tax	4,646	4,500	7,500	9,000
7 Banking Cash Transaction Tax	507	645	550	550
8 Taxes of UTs (Net of Assignments to Local Bodies)	1,263	1,442	1,334	1,451
9 Other Taxes and Duties	843	315	315	325
b) States' Share	120,330	142,450	151,837	178,765
c) Surcharge transferred to NCCF#	2,000	1,800	1,800	1,800
B. Non-Tax Revenue	83,205	82,550	93,325	95,785
<i>of which :</i>				
1 Interest Receipts	22,524	19,308	17,464	19,135
2 Dividends and Profits	29,309	33,925	36,108	43,204
3 External Grants	2,530	2,135	2,091	1,795
4 Non-tax Receipts of UTs	756	711	820	815
II. Revenue Expenditure (A+B)	514,609	557,900	588,586	658,119
A. Non-Plan Expenditure	372,191	383,546	412,975	448,352
<i>of which :</i>				
1 Interest Payments	150,272	158,995	171,971	190,807
2 Defence Revenue Expenditure	51,682	54,078	54,795	57,593
3 Subsidies	57,125	54,330	69,742	71,431
4 Non-Plan Grants to States and UTs	35,734	38,403	36,432	43,294
B. Plan Expenditure (1+2)	142,418	174,354	175,611	209,767
1 Central Plan	102,550	128,727	124,042	151,417
2 Central Assistance for State and UT Plans	39,868	45,627	51,569	58,350
III. Revenue Deficit (-)/Surplus(+) [I-II]	-80,222	-71,478	-63,488	-55,184

: NCCF : National Calamity Contingency Fund.

* : Inclusive of Fringe Benefit Tax.

Note : Figures in parentheses are percentages to GDP.

Source : Budget Documents of the Government of India, 2008-09.

Statement 2: Transactions on Revenue Account (Concl.)

(Rupees crore)

Items	Variation					
	Col. 4 over Col. 3		Col. 4 over Col. 2		Col. 5 over Col. 4	
	Amount	Per cent	Amount	Per cent	Amount	Per cent
1	6	7	8	9	10	11
I. Revenue Receipts (A+B)	38,676	8.0	90,711	20.9	77,837	14.8
A. Tax Revenue (Net to Centre) (a-b-c)	27,901	6.9	80,591	22.9	75,377	17.5
a) Gross Tax Revenue	37,288	6.8	111,898	23.6	102,305	17.5
<i>of which :</i>						
1 Corporation Tax	17,724	10.5	41,807	29.0	40,236	21.6
2 Taxes on Income other than Corporation Tax	16,641	17.8	29,873	37.2	18,494	16.8
3 Customs Duty	1,996	2.0	14,439	16.7	18,164	18.0
4 Union Excise Duty	-2,273	-1.7	10,334	8.8	9,927	7.8
5 Service Tax	403	0.8	13,005	34.6	13,857	27.4
6 Securities Transaction Tax	3,000	66.7	2,854	61.4	1,500	20.0
7 Banking Cash Transaction Tax	-95	-14.7	43	8.5	0	0.0
8 Taxes of UTs (Net of Assignments to Local Bodies)	-108	-7.5	71	5.6	117	8.8
9 Other Taxes and Duties	0	0.0	-528	-62.6	10	3.2
b) States' Share	9,387	6.6	31,507	26.2	26,928	17.7
c) Surcharge transferred to NCCF#	0	0.0	-200	-10.0	0	0.0
B. Non-Tax Revenue	10,775	13.1	10,120	12.2	2,460	2.6
<i>of which :</i>						
1 Interest Receipts	-1,844	-9.6	-5,060	-22.5	1,671	9.6
2 Dividends and Profits	2,183	6.4	6,799	23.2	7,096	19.7
3 External Grants	-44	-2.1	-439	-17.4	-296	-14.2
4 Non-tax Receipts of UTs	109	15.3	64	8.5	-5	-0.6
II. Revenue Expenditure (A+B)	30,686	5.5	73,977	14.4	69,533	11.8
A. Non-Plan Expenditure	29,429	7.7	40,784	11.0	35,377	8.6
<i>of which :</i>						
1 Interest Payments	12,976	8.2	21,699	14.4	18,836	11.0
2 Defence Revenue Expenditure	717	1.3	3,113	6.0	2,798	5.1
3 Subsidies	15,412	28.4	12,617	22.1	1,689	2.4
4 Non-Plan Grants to States and UTs	-1,971	-5.1	698	2.0	6,862	18.8
B. Plan Expenditure (1+2)	1,257	0.7	33,193	23.3	34,156	19.4
1 Central Plan	-4,685	-3.6	21,492	21.0	27,375	22.1
2 Central Assistance for State and UT Plans	5,942	13.0	11,701	29.3	6,781	13.1
III. Revenue Deficit (-)/Surplus(+) [I-II]	7,990	-11.2	16,734	-20.9	8,304	-13.1

Statement 3: Transactions on Capital Account

(Rupees crore)				
Items	2006-07 (Accounts)	2007-08 (Budget Estimates)	2007-08 (Revised Estimates)	2008-09 (Budget Estimates)
1	2	3	4	5
I. Capital Receipts (1 to 10)	149,000	194,099 *	184,275	147,949
		(154,099)	(149,966) #	
1. Market Borrowings @	114,801	110,827	110,727	99,000
2. Securities against Small Savings	-	10,510	- 1802	9,873
3. State Provident Funds	5,178	5,000	4,800	4,800
4. Special Deposits	-	-	-	-
5. Reserve Funds and Deposits	21,894	-1673	11,313	7,657
6. NSSF ^	-13,832	17,850	11,174	53
7. Recovery of Loans and Advances	5,893	1,500	4,497	4,497
8. Disinvestment of Equity Holding in Public Sector Enterprises	534	41,651 *	36,125	10,165
		(1,651)	(1,816) #	
9. External Borrowings	8,472	9,111	9,970	10,989
10. Others &	6,060	-677	-2,529	915
II. Capital Expenditure (1+2)	68,778	122,621 *	120,787	92,765
		(82,621)	(85,256) \$	
1. Non Plan Expenditure of which:	41,336	91,875 *	88,874	59,146
Defence Capital	33,828	41,922	37,705	48,007
2. Plan Expenditure (i+ii)	27,442	30,746	31,913	33,619
i) Central Plan	21,792	26,212	24,627	28,537
ii) Central Assistance for State and UT Plans	5,650	4,534	7,286	5,082
III. Capital Surplus (+)/Deficit(-) [I-II]	+80,222	+71,478	+63,488	+55,184
		+(71,478)	+(64,710)	

- : Not Available.

#, \$: See Statement 1.

* : Includes an amount of Rs. 40,000 crore on account of transaction relating to transfer of RBI's stake in SBI to the Government.

@ : Excluding the amount raised under Market Stabilisation Scheme (MSS).

^ : Represents net transactions in NSSF in the public accounts.

& : Inter alia includes relief bonds, savings bonds, payment to International Financial Institutions, Life Annuity Funds and draw down of cash balances.

Notes : 1) Capital Receipts are net of repayments.

2) Market borrowings include dated securities and 364-day Treasury Bills.

Source : Budget documents of Government of India, 2008-2009.

Statement 3: Transactions on Capital Account (Concl.d.)

(Rupees crore)

Items	Variation					
	Col. 4 over Col. 3		Col. 4 over Col. 2		Col. 5 over Col. 4	
	Amount	Per cent	Amount	Per cent	Amount	Per cent
1	6	7	8	9	10	11
I. Capital Receipts (1 to 10)	-9,824	-5.1	35,275	23.7	-36,326	-19.7
	-(4,133)	-(2.7)	(966)	(0.6)	-(2,017)	-(1.3)
1. Market Borrowings @	-100	-0.1	-4,074	-3.5	-11,727	-10.6
2. Securities against Small Savings	-12,312	-117.1	-	-	11,675	-647.9
3. State Provident Funds	-200	-4.0	-378	-7.3	0	0.0
4. Special Deposits	-	-	-	-	-	-
5. Reserve Funds and Deposits	12,986	-776.2	-10,581	-48.3	-3,656	-32.3
6. NSSF ^	-6,676	-37.4	25,006	-180.8	-11,121	-99.5
7. Recovery of Loans and Advances	2,997	199.8	-1,396	-23.7	0	0.0
8. Disinvestment of Equity Holding in Public Sector Enterprises	-5,526	-13.3	35,591	6,665.0	-25,960	-71.9
	(165)	(10.0)	(1282.0)	(240)	(8,349)	(459.7)
9. External Borrowings	859	9.4	1,498	17.7	1,019	10.2
10. Others &	-1,852	273.6	-8,589	-141.7	3,444	-136.2
II. Capital Expenditure (1+2)	-1,834	-1.5	52,009	75.6	-28,022	-23.2
	(2,635)	(3.2)	(16,478)	(24.0)	(7,509)	(8.8)
1. Non Plan Expenditure	-3,001	-3.3	47,538	115.0	-29,728	-33.4
of which:	(1,468)	(2.8)	(12,007)	(29.0)	(5,803)	(10.9)
Defence Capital	-4,217	-10.1	3,877	11.5	10,302	27.3
2. Plan Expenditure (i+ii)	1,167	3.8	4,471	16.3	1,706	5.3
i) Central Plan	-1,585	-6.0	2,835	13.0	3,910	15.9
ii) Central Assistance for State and UT Plans	2,752	60.7	1,636	29.0	-2,204	-30.2
III. Capital Surplus(+)/Deficit(-) [I-II]	-7,990	-11.2	-16,734	-20.9	-8,304	-13.1
	-(6,768)	-(9.5)	-(15,512)	-(19.3)	-(9,526)	-(14.7)

Statement 4: Financing of Gross Fiscal Deficit of the Central Government

(Rupees crore)

Year	Internal Finance				External Finance	Total Finance/ Gross Fiscal Deficit (5+6)
	Market Borrowings #	Other Borrowings @	Draw Down of Cash Balances *	Total (2+3+4)		
1	2	3	4	5	6	7
1990-91	8,001 (17.9)	22,103 (49.5)	11,347 (25.4)	41,451 (92.9)	3,181 (7.1)	44,632 (100.0)
1991-92	7,510 (20.7)	16,539 (45.5)	6,855 (18.9)	30,904 (85.1)	5,421 (14.9)	36,325 (100.0)
1992-93	3,676 (9.2)	18,866 (47.0)	12,312 (30.6)	34,854 (86.8)	5,319 (13.2)	40,173 (100.0)
1993-94	28,928 (48.0)	15,295 (25.4)	10,960 (18.2)	55,183 (91.6)	5,074 (8.4)	60,257 (100.0)
1994-95	20,326 (35.2)	32,834 (56.9)	961 (1.7)	54,121 (93.8)	3,582 (6.2)	57,703 (100.0)
1995-96	34,001 (56.4)	16,117 (26.8)	9,807 (16.3)	59,925 (99.5)	318 (0.5)	60,243 (100.0)
1996-97	19,093 (28.6)	31,469 (47.2)	13,184 (19.8)	63,746 (95.5)	2,987 (4.5)	66,733 (100.0)
1997-98	32,499 (36.5)	56,257 (63.3)	-910 (-1.0)	87,846 (98.8)	1,091 (1.2)	88,937 (100.0)
1998-99	68,988 (60.9)	42,650 (37.6)	-209 (-0.2)	111,429 (98.3)	1,920 (1.7)	113,349 (100.0)
1999-2000	62,076 (59.3)	40,597 (38.8)	864 (0.8)	103,537 (98.9)	1,180 (1.1)	104,717 (100.0)
2000-01	73,431 (61.8)	39,077 (32.9)	-1,197 (-1.0)	111,311 (93.7)	7,505 (6.3)	118,816 (100.0)
2001-02	90,812 (64.4)	46,038 (32.7)	-1,496 (-1.1)	135,354 (96.0)	5,601 (4.0)	140,955 (100.0)
2002-03	104,126 (71.8)	50,997 (35.2)	1,883 (1.3)	157,006 (108.2)	-11,934 (-8.2)	145,072 (100.0)
2003-04	88,870 (72.1)	51,833 (42.0)	-3,942 (-3.2)	136,761 (110.9)	-13,488 (-10.9)	123,273 (100.0)
2004-05	50,940 & (40.5)	68,231 (54.2)	-8,130 (-6.5)	111,041 (88.3)	14,753 (11.7)	125,794 (100.0)
2005-06	106,241 & (72.6)	53,610 (36.6)	-20,888 (-14.3)	138,963 (94.9)	7,472 (5.1)	146,435 (100.0)
2006-07	114,801 & (80.5)	14,782 (10.4)	4,518 (3.2)	134,101 (94.1)	8,472 (5.9)	142,573 (100.0)
2007-08 (RE)	110,727 & (77.1)	41,140 (28.6)	-18,184 (-12.7)	133,683 (93.1)	9,970 (6.9)	143,653 (100.0)
2008-09 (BE)	99,000 & (74.3)	16,073 (12.1)	7,225 (5.4)	122,298 (91.8)	10,989 (8.2)	133,287 (100.0)

RE : Revised Estimates.

BE : Budget Estimates.

: Includes dated securities and 364-days Treasury Bills.

@ : Other borrowings includes small savings, state provident funds, special deposits, reserve funds, etc. For the years 1999-2000 to 2001-02, small savings and public provident fund are represented by National Small Savings Fund (NSSF)'s investment in Central Government special securities and hence form part of Centre's internal debt.

* : Prior to 1997-98, represents variations in 91-day Treasury Bills issued net of changes in cash balances with the Reserve Bank.

& : Exclusive of amount raised under Market Stabilisation Scheme.

Note : Figures in parentheses represent percentages to total finance (gross fiscal deficit).

Source : Central Government Budget Documents.

Statement 5 : Central Plan Outlay by Heads of Development

(Rupees crore)

Items	2007-08 (Budget Estimates)	2007-08 (Revised Estimates)	2008-09 (Budget Estimates)	Variation			
				Col. 3 over Col. 2		Col. 4 over Col. 3	
				Amount	Per cent	Amount	Per cent
1	2	3	4	5	6	7	8
1. Agriculture	8,558 (2.7)	8,544 (2.9)	10,074 (2.7)	-14	-0.2	1,530	17.9
2. Rural Development*	20,342 (6.4)	21,147 (7.2)	23,831 (6.3)	805	4.0	2,684	12.7
3. Irrigation and Flood Control	507 (0.2)	454 (0.2)	411 (0.1)	-53	-10.5	-43	-9.5
4. Energy <i>of which :</i>	79,158 (24.7)	72,230 (24.7)	93,815 (25.0)	-6,928	-8.8	21,585	29.9
a) Power	37,782 (11.8)	34,354 (11.8)	45,238 (12.0)	-3,428	-9.1	10,884	31.7
b) Petroleum	36,364 (11.4)	33,174 (11.3)	42,450 (11.3)	-3,190	-8.8	9,276	28.0
5. Industry and Minerals	20,434 (6.4)	17,953 (6.1)	28,836 (7.7)	-2,481	-12.1	10,883	60.6
6. Transport **	71,589 (22.4)	68,930 (23.6)	84,177 (22.4)	-2,659	-3.7	15,247	22.1
7. Communications	25,812 (8.1)	16,599 (5.7)	21,937 (5.8)	-9,213	-35.7	5,338	32.2
8. Science, Technology and Environment	8,816 (2.8)	7,742 (2.6)	9,283 (2.5)	-1,074	-12.2	1,541	19.9
9. Social Services #	80,315 (25.1)	75,162 (25.7)	95,919 (25.5)	-5,153	-6.4	20,757	27.6
10. Others	4,461 (1.4)	3,576 (1.2)	7,202 (1.9)	-885	-19.8	3,626	101.4
Total (1 to 10)	319,992 (100.0)	292,337 (100.0)	375,485 (100.0)	-27,655	-8.6	83,148	28.4
To be financed by :							
1. Budgetary Support	154,939 (48.4)	148,669 (50.9)	179,954 (47.9)	-6,270	-4.0	31,285	21.0
2. Internal and Extra Budgetary Resources (IEBR) of Public Social Enterprises, etc.	165,053 (51.6)	143,668 (49.1)	195,531 (52.1)	-21,385	-13.0	51,863	36.1

* : Includes provision for rural housing but excludes provision for rural roads.

** : Includes provision for rural roads.

: Excludes provision for rural housing.

Note : Figures in parentheses represent percentage to total.**Source** : Budget documents of Government of India, 2008-09.

Statement 6 : Resources Transferred to States and Union Territory Governments.

(Rupees crore)

Items	2007-08 (Budget Estimates)	2007-08 (Revised Estimates)	2008-09 (Budget Estimates)	Variation			
				Col. 3 over Col. 2		Col. 4 over Col. 3	
				Amount	Per cent	Amount	Per cent
1	2	3	4	5	6	7	8
A. State's Share in Central Taxes and Duties	142,450	151,837	178,765	9,387	6.6	26,928	17.7
B. Total Grants (i+ii)	103,430	106,015	124,746	2,585	2.5	18,731	17.7
i) Plan	65,027	69,584	81,452	4,557	7.0	11,868	17.1
ii) Non-Plan	38,403	36,431	43,294	-1,972	-5.1	6,863	18.8
C. Total Non-Plan Loans *	95	89	89	-6	-6.3	0	0.0
D. Plan Loans (i+ii)	3,462	6,161	4,026	2,699	78.0	-2,135	-34.7
i) Assistance for States & Union Territory Plans	3,287	5,986	3,868	2,699	82.1	-2,118	-35.4
ii) Assistance for Central & Centrally Sponsored Plan Schemes	175	175	158	0	0.0	-17	-9.7
E. Gross Transfers (A to D)	249,437	264,102	307,626	14,665	5.9	43,524	16.5
F. Recovery of Loans & Advances	593	2,503	2,666	1,910	322.1	163	6.5
G. Net Resources transferred to States & UT Governments (E-F)	248,844	261,599	304,960	12,755	5.1	43,361	16.6

* : Net of recovery of short-term loans and advances.

Source : Budget documents of Government of India, 2008-09.

Statement 7 : Interest payments by the Central Government

(Rupees crore)

Item	1990-91 (Accounts)	1999-2000 (Accounts)	2000-2001 (Accounts)	2001-2002 (Accounts)	2002-2003 (Accounts)	2003-2004 (Accounts)
1	2	3	4	5	6	7
I Interest Payments on Internal Debt	9,814	49,280	57,605	66,035	75,176	82,620
<i>of which :</i>						
i) On Market Loans*	6,366	38,106	46,214	55,024	62,559	68,765
ii) On Treasury Bills**	3,392	6,410	6,395	6,453	6,151	3,542
iii) On Marketable securities issued in conversion of special securities	—	2,399	2,399	2,399	3,067	6,263
II Interest on External debt	1,834	4,508	4,413	4,285	4,252	3,139
III Interest on Small Savings Deposits, Certificates and PPF @	4,128	20,265	21,477	22,471	23,379	20,503
IV Interest on State Provident Funds	885	3,567	3,879	3,794	3,913	3,733
V Interest on Special Deposits of Non-Government Provident Funds etc.	3,876	13,520	12,575	14,259	13,625	13,161
VI Interest on Reserve Funds	112	332	161	129	229	352
VII Interest on Other Obligations	325	862	854	567	1,214	1,400
VIII Others #	524	2,259	2,260	2,633	3,099	7,286
Total Interest Payments (I to VIII)	21,498	94,593	103,224	114,173	124,887	132,194

* : Represents dated securities

** : Also includes special securities issued to RBI in conversion of Treasury Bills.

@ : Since 1999-2000, these payments form part of internal debt.

: Includes inter alia, interest on insurance and pension funds, bonus on field deposits and interest on other deposits and accounts.

Note : 1) The data are taken from Finance Accounts and Expenditure Budget volume 2 and the aggregate figures for interest payments may not tally for some years with the data produced elsewhere.

2) Since 1999-2000, interest on small savings represent interest on Central Government Special securities issued to the NSSF.

Source : Finance Accounts and Budget documents of the Government of India.

Statement 7 : Interest payments by the Central Government (Concl.)

(Rupees crore)

Item	2004-05 (Accounts)	2005-06 (Accounts)	2006-07 (Revised Estimates)	2007-08 (Revised Estimates)	2008-09 (Budget Estimates)
1	8	9	10	11	12
I. Interest Payments on Internal Debt	86,380	85,533	98,917	121,068	135,135
of which :					
i) On Market Loans*	69,852	66,500	76,730	92,022	99,137
ii) On Treasury Bills**	2,165	3,990	5,404	8,202	7,804
iii) On Marketable securities issued in conversion of special securities	7,753	7,066	6,609	6,198	5,533
II. Interest on External debt	2,808	3,173	3,868	3,890	4,143
III. Interest on Small Savings Deposits, Certificates and PPF @	18,950	18,029	18,150	17,219	17,364
IV. Interest on State Provident Funds	4,425	4,950	5,059	5,591	5,834
V. Interest on Special Deposits of Non-Government Provident Funds etc.	12,892	12,874	12,802	12,481	11,222
VI. Interest on Reserve Funds	541	717	891	1197	1,361
VII. Interest on Other Obligations	1,592	1,345	2,457	5,754	8,067
VIII. Others #	654	3,411	4,048	4,771	7,681
Total Interest Payments (I to VIII)	130,958	130,032	146,192	171,971	190,807

Statement 8: Outstanding Liabilities of Central Government

(Rupees crore)

Year (End March)	Internal Debt	Of which: Market Loans	Small Savings, Deposits & Provident Funds	Other Accounts +	Reserve Fund and Deposits ++	Total Domestic Liabilities (2+4+5+6)	External Liabilities*	Total Liabilities (7+8)
1	2	3	4	5	6	7	8	9
1990-91	154,004 (27.0)	70,520 (12.4)	61,771 (10.8)	45,336 (8.0)	21,922 (3.8)	283,033 (49.7)	31,525 (5.5)	314,558 (55.2)
1991-92	172,750 (26.4)	78,023 (11.9)	69,682 (10.6)	51,818 (7.9)	23,464 (3.6)	317,714 (48.5)	36,948 (5.6)	354,662 (54.2)
1992-93	199,100 (26.5)	81,693 (10.9)	77,005 (10.2)	59,797 (7.9)	23,753 (3.2)	359,655 (47.8)	42,269 (5.6)	401,924 (53.4)
1993-94	245,712 (28.4)	110,611 (12.8)	87,877 (10.1)	72,477 (8.4)	24,556 (2.8)	430,623 (49.7)	47,345 (5.5)	477,968 (55.2)
1994-95	266,467 (26.2)	130,908 (12.9)	106,435 (10.5)	85,787 (8.4)	28,993 (2.9)	487,682 (48.0)	50,929 (5.0)	538,611 (53.0)
1995-96	307,869 (25.8)	163,986 (13.8)	121,425 (10.2)	92,010 (7.7)	33,680 (2.8)	554,983 (46.6)	51,249 (4.3)	606,232 (50.9)
1996-97	344,476 (25.0)	184,100 (13.4)	138,955 (10.1)	100,088 (7.3)	37,919 (2.8)	621,437 (45.1)	54,239 (3.9)	675,676 (49.0)
1997-98	388,998 (25.5)	216,598 (14.2)	167,780 (11.0)	124,087 (8.1)	42,097 (2.8)	722,962 (47.3)	55,332 (3.6)	778,294 (51.0)
1998-99	459,696 (26.3)	285,585 (16.3)	206,458 (11.8)	126,802 (7.2)	41,595 (2.4)	834,552 (47.7)	57,254 (3.3)	891,806 (50.9)
1999-2000	714,254 # (36.6)	355,862 (18.2)	66,406 # (3.4)	134,425 (6.9)	47,508 (2.4)	962,592 (49.3)	58,437 (3.0)	1,021,029 (52.3)
2000-01	803,698 (38.2)	428,793 (20.4)	96,344 (4.6)	144,020 (6.9)	58,535 (2.8)	1,102,597 (52.4)	65,945 (3.1)	1,168,542 (55.6)
2001-02	913,061 (40.1)	516,517 (22.7)	144,511 (6.3)	164,157 (7.2)	73,133 (3.2)	1,294,862 (56.8)	71,546 (3.1)	1,366,408 (60.0)
2002-03	1,020,689 (41.6)	619,105 (25.2)	226,400 (9.2)	172,374 (7.0)	80,126 (3.3)	1,499,589 (61.1)	59,612 (2.4)	1,559,201 (63.5)
2003-04	1,141,706 (41.4)	707,965 (25.7)	288,378 (10.5)	168,094 (6.1)	92,376 (3.4)	1,690,554 (61.4)	46,124 (1.7)	1,736,678 (63.0)
2004-05	1,275,971 & (40.5)	758,995 (24.1)	390,477 (12.4)	174,107 (5.5)	92,989 (3.0)	1,933,544 (61.4)	60,878 (1.9)	1,994,422 (63.3)
2005-06	1,389,758 & (38.8)	862,370 (24.1)	479,761 (13.4)	186,921 (5.2)	109,462 (3.1)	2,165,902 (60.5)	94,243 (2.6)	2,260,145 (63.1)
2006-07	1,544,975 & (37.3)	972,801 (23.5)	539,450 (13.0)	220,160 (5.3)	131,295 (3.2)	2,435,880 (58.8)	102,716 (2.5)	2,538,596 (61.2)
2007-08 RE	1,844,110 & (39.3)	1,092,472 (23.3)	564,052 (12.0)	241,380 (5.1)	134,810 (2.9)	2,784,352 (59.3)	112,686 (2.4)	2,897,038 (61.7)
2008-09 BE	1,972,532 & (37.2)	1,197,543 (22.6)	588,980 (11.1)	243,877 (4.6)	133,849 (2.5)	2,939,238 (55.4)	123,675 (2.3)	3,062,913 (57.7)

RE : Revised Estimates

BE : Budget Estimates

+ : Include mainly Postal Insurance and Life Annuity Fund, borrowings under Compulsory Deposits and Income-Tax Annuity Deposits, Special Deposits of non-Government Provident Funds.

++ : Include Depreciation Reserve Fund of Railways and Dept. of Posts and Dept. of Telecommunications, Deposits of Local Funds, Departmental and Judicial Deposits, Civil Deposits, etc.

* : At historical exchange-rate.

: The sharp increase in internal debt and corresponding decline in small savings and provident funds in 1999-2000 is due to conversion of other liabilities (small savings, deposits and public provident funds) amounting to Rs. 1,80,273 crore into Central Government securities. Since 1999-2000, Small Savings represent liabilities under National Small Savings fund (NSSF) excluding NSSF investment in the Central Government's Special Securities.

& : Include amount raised under Market Stabilisation Scheme.

Note : Figures in parentheses are percentages to GDP.

Source : Budget Documents of the Government of India.

Statement 9 : Key Fiscal Indicators

(Rupees crore)

Item	1999-2000 (Accounts)	2000-2001 (Accounts)	2001-2002 (Accounts)	2002-2003 (Accounts)	2003-2004 (Accounts)	2004-05 (Accounts)
1	2	3	4	5	6	7
1. Gross Fiscal Deficit	104,716 (5.4)	118,816 (5.7)	140,955 (6.2)	145,072 (5.9)	123,273 (4.5)	125,794 (4.0)
2. Revenue Deficit	67,596 (3.5)	85,234 (4.1)	100,162 (4.4)	107,879 (4.4)	98,261 (3.6)	78,338 (2.5)
3. Net RBI Credit to Centre	-5,588 (-0.3)	6,705 (0.3)	-5,150 (-0.2)	-28,399 (-1.2)	-76,065 (-2.8)	-60,177 (-1.9)
4. Gross Primary Deficit	14,467 (0.7)	19,502 (0.9)	33,495 (1.5)	27,268 (1.1)	-815 (0.0)	-1,140 (0.0)
5. Subsidies of which :	24,487 (1.3)	26,838 (1.3)	31,210 (1.4)	43,533 (1.8)	44,323 (1.6)	45,957 (1.5)
i) Food	9,434 (0.5)	12,060 (0.6)	17,499 (0.8)	24,176 (1.0)	25,181 (0.9)	25,798 (0.8)
ii) Fertiliser	13,244 (0.7)	13,800 (0.7)	12,595 (0.6)	11,015 (0.4)	11,847 (0.4)	15,879 (0.5)
iii) Petroleum	5,225 (0.2)	6,351 (0.2)	2,956 (0.1)
6. Defence Expenditure	47,071 (2.4)	49,622 (2.4)	54,266 (2.4)	55,662 (2.3)	60,066 (2.2)	75,856 (2.4)
7. Interest Payments	90,249 (4.6)	99,314 (4.7)	107,460 (4.7)	117,804 (4.8)	124,088 (4.5)	126,934 (4.1)
8. Total Non-Plan Expenditure	221,871 (11.4)	242,923 (11.6)	261,116 (11.4)	301,778 (12.3)	348,923 (12.6)	365,960 (11.7)
9. Budgetary Support to Public Enterprises *	9,103 (0.5)	10,493 (0.5)	13,488 (0.6)	15,232 (0.6)	15,982 (0.6)	17,005 (0.5)
10. Interest Receipts	33,895 (1.7)	32,811 (1.6)	35,538 (1.6)	37,622 (1.5)	38,538 (1.4)	32,387 (1.0)
11. Interest Payments as per cent of Revenue Receipts	49.7	51.6	53.4	51.0	47.0	41.5
12. Revenue Deficit as per cent of Gross Fiscal Deficit	64.6	71.7	71.1	74.4	79.7	62.3
13. Net RBI Credit to Centre as per cent of Gross Fiscal Deficit	-5.3	5.6	-3.7	-19.6	-61.7	-47.8

.. : Not available / applicable.

* : Figures relate to revised estimates for years prior to 2007-08.

Note : Figures in parentheses are per cent to GDP.**Source** : Budget documents of the Government of India.

Statement 9 : Key Fiscal Indicators (Concl.)

(Rupees crore)					
Item	2005-06 (Accounts)	2006-07 (Accounts)	2007-08 (Budget Estimates)	2007-08 (Revised Estimates)	2008-09 (Budget Estimates)
1	8	9	10	11	12
1. Gross Fiscal Deficit	146,435 (4.1)	142,573 (3.4)	150,948 (3.2)	143,653 (3.1)	133,287 (2.5)
2. Revenue Deficit	92,299 (2.6)	80,222 (1.9)	71,478 (1.5)	63,488 (1.4)	55,184 (1.0)
3. Net RBI Credit to Centre	28,417 (0.8)	-3,024 (-0.1)	..	-112,489 (-2.4)	..
4. Gross Primary Deficit	13,805 (0.4)	-7,699 (-0.2)	-8,047 (-0.2)	-28,318 (-0.6)	-57,520 (-1.1)
5. Subsidies	47,522	57,125	54,330	69,742	71,431
of which :	(1.3)	(1.4)	(1.2)	(1.5)	(1.3)
i) Food	23,077 (0.6)	24,014 (0.6)	25,696 (0.5)	31,546 (0.7)	32,667 (0.6)
ii) Fertiliser	18,460 (0.5)	26,222 (0.6)	22,451 (0.5)	30,501 (0.6)	30,986 (0.6)
iii) Petroleum	2,683 (0.1)	2,699 (0.1)	2,840 (0.1)	2,882 (0.1)	2,884 (0.1)
6. Defence Expenditure	80,549 (2.2)	85,510 (2.1)	96,000 (2.0)	92,500 (2.0)	105,600 (2.0)
7. Interest Payments	132,630 (3.7)	150,272 (3.6)	158,995 (3.4)	171,971 (3.7)	190,807 (3.6)
8. Total Non-Plan Expenditure	365,100 (10.2)	413,527 (10.0)	475,421 (10.1)	501,849 (10.7)	507,498 (9.6)
9. Budgetary Support to Public Enterprises *	17,362 (0.5)	20,635 (0.5)	19,331 (0.4)	19,636 (0.4)	19,440 (0.4)
10. Interest Receipts	22,032 (0.6)	22,524 (0.5)	19,308 (0.4)	17,464 (0.4)	19,135 (0.4)
11. Interest Payments as per cent of revenue receipts	38.2	34.6	32.7	32.8	31.6
12. Revenue Deficit as per cent of Gross Fiscal Deficit	63.0	56.3	47.4	44.2	41.4
13. Net RBI Credit to Centre as per cent of Gross Fiscal Deficit	19.4	-2.1	..	-78.3	..

Annex1: Detailed Tax Proposals

A. Income Tax

1. Tax Structure and Rates

(i) Personal Income Tax

Personal income tax rates and corporation income tax rates are proposed to be kept unchanged from those laid down in the Finance Act 2005. However, the basic exemption limit has been revised and the threshold limit of exemption in the case of all assesses has been increased. Hence the rates of income tax on total income would be as follows:

Income Slab	Income Tax Rates
Up to Rs.1,50,000/- (Up to Rs.1,80,000/- for women below the age of sixty five years and Rs.2,25,000/- for senior citizens)	Nil
Rs.1,50,001/- to Rs.3,00,000/- (Rs.1,80,001/- to Rs.3,00,000/- for women below the age of 65 years and Rs.2,25,001/- to Rs.3,00,000/- for senior citizens)	10 per cent
Rs.3,00,001/- to Rs.5,00,000/-	20 per cent
Above Rs.5,00,000/-	30 per cent

In the case of individuals, Hindu undivided families, association of persons and body of individuals having total income exceeding Rs.10 lakh, a surcharge at the rate of 10 per cent will continue to be levied. However, the total

amount payable as income tax and surcharge shall not exceed the amount of income in excess of Rs.10 lakh.

Education cess of two per cent on the amount of tax payable, inclusive of surcharge will continue to be levied in all cases so as to fulfil the commitment of the Government to provide universalised quality education. Moreover, an additional surcharge, called the "Secondary and Higher Education Cess on Income Tax" is proposed to be levied in all cases at the rate of one per cent of income tax and surcharge (not including the "Education Cess on Income Tax").

(ii) Corporation Tax

The corporation income tax rate will continue at 30 per cent. The surcharge shall continue to be levied at the rate of 10 per cent of tax in the case of domestic companies and 2.5 per cent in the case of foreign companies. However, no surcharge shall be levied in case of firms having total income of Rs. one crore or less. Education cess of two per cent on the amount of tax payable inclusive of surcharge will continue to be levied in all cases. An additional surcharge is proposed to be levied in all cases at the rate of one per cent of income tax and surcharge (not including the "Education Cess on Income Tax").

(iii) Income Tax on Other Institutions

In the case of co-operative societies and local authorities, there will be no

surcharge as at present. The education cess of 2 per cent and the new secondary and higher education cess of 1 per cent would, however, be applicable to co-operative societies and local authorities.

2. Measures to Widen the Income Tax Base

Sunset provision for deduction for refining of mineral oil under section 80-IB(9)

The deduction under this sub-section is available to an undertaking for a period of seven consecutive assessment years including the initial assessment year-

- (i) In which the commercial production under a production sharing contract has first started; or
- (ii) In which the refining of mineral oil has begun.

It is proposed to insert a new provision in sub-section (9) of section 80-IB so as to provide that no deduction under this sub-section shall be allowed to an undertaking engaged in refining

of mineral oil if it begins refining on or after the 1st day of April,2009.

This amendment will take effect from the 1st day of April,2008.

Commodities Transaction Tax

A new tax called Commodities Transaction Tax (CTT) is proposed to be levied on taxable commodities transactions entered in a recognised association.

It is proposed to define 'Taxable commodities transaction' to mean a transaction of purchase or sale in a recognised association of -

- (i) Option in goods; or
- (ii) Option in commodity derivative; or
- (iii) Any other commodity derivative.

The tax is proposed to be levied at the rate, given in the table below, on taxable commodities transactions undertaken by the seller or the purchaser, as the case may be as indicated hereunder:-

Further, it is proposed to amend section 36 of the income-tax Act to

S. No.	Taxable commodities transaction	Rate	Payable by
1.	Sale of an option in goods or an option in Commodity derivative.	0.017 per cent on option premium	Seller
2.	Sale of an option in goods or an option in commodity derivative, where option is exercised.	0.125 per cent on the Settlement price of the option.	Purchaser
3.	Sale of any other commodity derivative	0.017 per cent of the price at which the commodity derivative is sold.	Seller

provide that any amount of commodities transaction tax paid by the assessee during the year in respect of taxable commodities transactions entered into in the course of business shall be allowed as deduction subject to the condition that such income from taxable commodities transactions is included under the head 'profits and gains of business or profession'.

3. Welfare Measures

Amendment to give effect to reverse mortgage scheme

It is proposed to insert a new clause (xa) in section 47 of the income-tax Act to provide that any transfer of a capital asset in a transaction of reverse mortgage under a scheme made and notified by the Central Government shall not be regarded as a transfer and therefore shall not attract capital gains tax.

It is proposed to amend section 10 of the income tax Act to provide that loan amounts, either in lump sum or in instalment, received under a reverse mortgage scheme will be exempt from income tax.

Consequent to these amendments, a borrower, under a reverse mortgage scheme will be liable to income tax (in the nature of tax on capital gains) only at the point of alienation of the mortgaged property by the mortgagee for the purposes of recovering the loan.

Enlargement of the scope of eligible saving instruments under section 80C

With a view to encourage small savings, it is proposed to enlarge the

scope of eligible saving instruments by inserting two new clauses in sub-section (2) of section 80C. The following investments made by the assessee, during the previous year, shall be eligible for deduction under section 80C within the overall ceiling of rupees one lakh:-

- (i) Five year time deposit in an account under Post Office Time Deposit Rules, 1981; and
- (ii) Deposit in an account under the Senior Citizens Savings Scheme Rules, 2004.

Further, it is also proposed to provide that where any amount is withdrawn by the assessee from such account before the expiry of a period of 5 years from the date of its deposit, the amount so withdrawn shall be deemed to be income of the assessee of the previous year in which the amount is withdrawn. The amount so withdrawn, accordingly, shall be liable to tax in the assessment year relevant to such previous year. The amount liable to tax shall also include that part of the amount withdrawn which represents interest accrued on the deposit. However if any part of the amount so received or withdrawn (including the amount relating to interest) has suffered taxation in any of the earlier years, such amount shall not be taxed again.

The proposed amendment shall apply to investments, as above, made during the financial 2007-08 and subsequent years.

Additional deduction for health insurance premium paid for parents

Since health insurance cover for the elderly comes at a relatively higher price, it is necessary to encourage individual assesseees to supplement the efforts of their parents in getting themselves medically insured. Accordingly, it is proposed to allow an additional deduction of up to fifteen thousand rupees to an assessee, being an individual, on any payment made to effect or keep in force an insurance on the health of his parent or parents. The existing condition of 'dependent' with respect to parents is being dispensed with. The deduction shall be in addition to the existing deduction available to the individual assessee on medical insurance for himself, his spouse and dependent children.

Further, it is proposed that if either of the individual assessee's parents, who has been medically insured, is a senior citizen, the deduction would be allowed up to twenty thousand rupees.

*4. Rationalisation and Simplification Measures**Streamlining the definition of "charitable purpose"*

With a view to limiting the scope of the phrase "advancement of any other object of general public utility", it is proposed to amend section 2 (15) so as to provide that "the advancement of any other object of general public utility" shall not be a charitable purpose if it involves the carrying on of -

- (a) Any activity in the nature of trade, commerce or business or,
- (b) Any activity of rendering of any service in relation to any trade, commerce or business,

For a fee or cess or any other consideration, irrespective of the nature of use or application of the income from such activity, or the retention of such income, by the concerned entity.

This amendment will take effect from the 1st day of April, 2009 and will accordingly apply in relation to the assessment year 2009-10 and subsequent assessment years.

Extending the provision of section 35D relating to amortisation of preliminary expenses to all undertakings

With a view to providing a level playing field to the services sector, it is necessary to extend to the service sector, the same benefit of amortisation of specified post-commencement preliminary expenses as is available to the manufacturing sector for the extension of an undertaking or the setting up of a new unit. Therefore, it is proposed to amend section 35D accordingly.

The amendment will take effect from the 1st day of April, 2009 and will accordingly apply in relation to assessment year 2009-10 and subsequent assessment years.

Amendment of provisions relating to dividend distribution tax

Accordingly, it has been proposed that the amount of dividend referred to in

sub-section (1) will be reduced by the amount of dividend received by the domestic company from its subsidiary, if

- (a) The subsidiary has paid tax under section 115-O on such dividend, and
- (b) The domestic company is not a subsidiary of any other company.

It is also provided that the same amount of dividend shall not be taken into account for such reduction, more than once. For the purpose of the section, a company shall be a subsidiary of another company, if such other company holds more than half in nominal value of the equity share capital of the company.

This amendment will take effect from the 1st day of April, 2008.

5. Rationalisation of Provision of Tax Deduction and collection at Source

Enlargement of scope of TDS under section 194 C to cover association of persons and body of individuals

The amendment proposes to provide that any association of persons or body of individuals, whether incorporated or not shall be liable to deduct income-tax at source under sub-section (1) of section 194 C.

The amendment will take effect from 1st day of June, 2008.

Provision for furnishing of information regarding deduction of tax at source under section 195

To monitor and track transactions in a timely manner, it is proposed to

introduce the e-filing of the information in the certificate and undertaking. The amendment therefore, proposes to provide that the person responsible for deduction of income tax shall furnish the information relating to payment of any sum to the non-resident or to a foreign company in a form and manner to be prescribed by the Board.

This amendment will take effect from the 1st of April, 2008.

Amendments to the provisions of Dematerialisation of TDS and TCS certificates

A scheme for dematerialisation of Tax Deducted at Source (TDS)/ Tax Collected at Source (TCS) was introduced through the Finance (No.2) Act, 2004, with effect from 01-04-2005 for any deduction or collection of tax at source made on or after 01-04-2005. The commencement of this scheme was postponed to 1-4-2006 by the Finance Act, 2005 and later to 1-4-2008 by the Finance Act, 2006. Since the national level information technology infrastructure of the Income-tax Department is not yet operational, it is proposed to extend the commencement of the scheme to 1-04-2010.

Removal of TDS on Corporate Bonds

Section 193 of the Income-tax Act provides for deduction of tax at source (TDS) on any income by way of interest on securities payable to a resident.

In order to facilitate development of the corporate bond market for improving the availability of finances for infrastructure development, it is proposed to remove TDS on any interest

payable to a resident on any security issued by a company where such security is in dematerialised form and is listed on a recognised stock exchange in India in accordance with the Securities Contracts (Regulation) Act, 1956 (42 of 1956) and any rules made thereunder.

This amendment will take effect from the 1st day of June, 2008.

B. Measures to Promote Scientific Research and Development

Weighted deduction for sum paid to a company to be used by such company for scientific research

With a view to encouraging outsourcing of scientific research, particularly by small companies which are handicapped in making lumpy investment for building in-house scientific facilities, it is proposed to insert a new clause (iia) in sub-section (1) of section 35 of the Income-tax Act to allow a weighted deduction of 125 per cent of the amount paid by a person to a company to be used for scientific research, if such company -

- (i) Is registered in India;
- (ii) Has as its main object the scientific research and development;
- (iii) Is for the time being approved by the prescribed authority in the prescribed manner; and
- (iv) Fulfils such other conditions as may be prescribed.

However, with a view to avoid multiple claims for deduction, it is also proposed to provide that a company approved

under the provisions of section 35 (1) (iia) will not be entitled to claim weighted deduction of 150% under section 35(2AB). However, deduction to the extent of 100% of the sum spent as revenue expenditure on scientific research which is available under section 35(1)(i) will continue to be allowed.

These amendments will take effect from the 1st day of April, 2009 and will accordingly apply in relation to assessment year 2009-10 and subsequent assessment years.

C. Measures to Promote Socio-Economic Development

Widening the scope of "agricultural income"

With a view to giving finality to the issue, it is proposed to amend section 2(1A) so as to provide that any income derived from saplings or seedlings grown in a nursery shall be deemed to be agricultural income. Accordingly, irrespective of whether the basic operations have been carried out on land, such income will be treated as agricultural income, thus qualifying for exemption under section 10(1) of the Act.

This amendment will take effect from the 1st day of April, 2009 and will accordingly apply in relation to the assessment year 2009-10 and subsequent assessment years.

Exemption to a "Sikkimese" individual

Section 10 of Income-tax Act relates to incomes which do not form part of total income.

It is proposed to insert a new clause (26AAA) in section 10 to provide that the following income, which accrues or arises to a Sikkimese individual, shall be exempt from income tax-

- (a) Income from any source in the State of Sikkim; or
- (b) Income by way of dividend or interest on securities

It is also proposed to provide that this exemption will not be available to a Sikkimese woman who, on or after 1st April, 2008 marries a non-Sikkimese individual.

Exemption of Income of Coir Board

Section 10(29A) provides that any income of certain specified commodity boards and export development authorities shall be exempt from income tax. It is proposed to allow a similar exemption in respect of any income accruing or arising to the coir board established under the Coir Industry Act, 1953.

This amendment will take effect from 1st day of April, 2009 and will accordingly apply in relation to the assessment year 2009-10 and subsequent assessment years.

Extensions of Income Tax Exemption to Special Undertaking of Unit Trust of India (SUUTI)

This exemption has come to an end on 31st January, 2008.

Since two schemes of SUUTI, namely, US 64 bonds and 6.6% ARS bonds, are still pending closure, it is proposed to

amend section 13(1) so as to extend the exemption up to 31st March, 2009.

This amendment will take effect retrospectively from 1st February, 2008.

Five year tax holiday to hospitals located in certain areas

With a view to encouraging investment in hospitals in non-metro cities, it is proposed to extend the benefit of sub-section (11B) of section 80-IB to hospitals located anywhere in India, other than the excluded area. Hence, it is proposed to insert a new sub-section (11C) in the said section 80-IB. The proposed new sub-section, inter-alia, seeks to provide that:-

- (i) The tax benefit shall be with respect to the profit derived from the business of operating and maintaining a hospital for a period of five consecutive assessment years, beginning from the initial assessment years;
- (ii) The tax benefit will be available to hospital which is constructed and has started or start functioning at any time during the period beginning on the 1st day of April, 2008 and ending on the 31st day of March, 2013;
- (iii) The excluded area shall mean an area comprising the urban agglomerations of Greater Mumbai, Delhi, Kolkata, Chennai, Hyderabad, Bangalore, and Ahmedabad, the districts of Faridabad, Gurgaon, Ghaziabad, Gautam Budh Nagar and Gandhinagar and the city of Secunderabad;

(iv) The area comprising an urban agglomeration shall be the area included in such urban agglomeration on the basis of the 2001 census.

Other existing conditions of sub-section (11B0 of section 80-IB) have also been incorporated in the proposed new sub-section.

This amendment will take effect from 1st April, 2009 and will accordingly apply in relation to assessment year 2009-10 and subsequent assessment years.

Five year tax holiday for hotels located in specified districts having a World Heritage Site

With a view to promoting tourism and to attract tourists to certain World Heritage Sites in India, it is proposed to extend the scope of tax benefits available in section 80-ID of the Income-tax Act also to new two-star, three-star or four-star category hotels located in specified districts having a World Heritage Site. Such hotels are required to be constructed and start functioning at any time during the period beginning on the 1st day of April, 2008 and ending on the 31st day of March, 2013. Specified districts having a World Heritage Site are proposed to be the districts of Agra, Jalgaon, Aurangabad, Kancheepuram, Puri, Bharatpur, Chhatarpur, Thanjavur, Bellary, South 24 Parganas (excluding areas falling within the Kolkata Urban Agglomeration on the basis of the 2001 Census), Chamoli, Raisen, Gaya, Bhopal, Panchamaharaj, Kamrup, Goalpara, Nagaon, North Goa, South Goa, Darjeeling and Nilgiri.

Other conditions, already specified in this section, shall also be applicable to the new hotels.

This amendment will take effect from 1st April, 2009 and will accordingly apply in relation to assessment year 2009-10 and subsequent assessment years.

D. Measures for Additional Revenue Mobilisation

Increase in tax rates for Short Term Capital Gain

It is proposed to increase the rate of tax on such short-term capital gain to fifteen per cent.

These amendments will take effect from the 1st day of April, 2009 and will accordingly apply in relation to assessment year 2009-10 and subsequent assessment years.

E. Measures to Plug Revenue Leakages

Amendment to the provisions of section 40A(3) of the Income-tax Act.

Section 40A (3) is an anti-tax evasion. To overcome the splitting of payments to the same person made during a day and circumvent provisions of this section, the section is amended to substitute the present provision to provide that where a payment or aggregate of payments made to a person in a day, otherwise than by an account payee cheque drawn on a bank or account payee bank draft, exceeds twenty thousand rupees, the disallowance of such expenditure shall be made under the

proposed sub-section (3) of section 40A or the payment shall be deemed to be the profits and gains of business or profession under the proposed sub-section (3A) of section 40A, as the case may be.

F. Rationalisation and Simplification of Administrative and Compliance Procedures

Correction of arithmetical mistakes and adjustment of incorrect claim under section 143(1) through Centralised Processing of Returns

With an objective to reduce revenue loss, it is proposed to amend section 143(1) of the Income-tax Act. It is proposed to provide that the total income of an assessee shall be computed under section 143 (1) after making the following adjustments to the total income in the return:

- (a) Any arithmetical error in the return; or
- (b) An incorrect claim, if such incorrect claim is apparent from any information in the return.

Capital gains on transfer in the context of foreign currency exchangeable bonds

With a view to providing a level playing field to foreign currency exchangeable bonds (FCEBs), it is proposed to provide that the conversion of FCEBs into shares or debentures of any company shall not be treated as a 'transfer' within the meaning of Income-tax Act. Further it is also proposed to substitute sub-section (2A) of section 49 to provide that the cost of acquisition of

the shares received upon conversion of the bond shall be the price at which the corresponding bond was acquired.

These amendments will take effect retrospectively from 1st April, 2008, and will accordingly apply in relation to assessment year 2008-09 and subsequent assessment years.

G. Fringe Benefit Tax

Rationalisation of the provision of the Fringe Benefit Tax

With a view to rationalising the provisions of Fringe Benefit Tax, the following amendments to sub-section (2) of section 115WB of the Income-tax Act are proposed-

- (i) Any expenditure on or payment through pre-paid electronic meal card shall also be excluded from the hospitality expenditure for calculation of the value of fringe benefit. Such electronic meal card should not be transferable, should be usable only at eating joints or outlets and should fulfill such other conditions, as may be prescribed.
- (ii) Explanation to clause (E) is proposed to be amended to provide that any expenditure incurred or payment made to -
 - Provide crèche facility for the children of the employee; or
 - Sponsor a sportsman, being an employee; or
 - Organise sports events for employee.

Shall not be considered as expenditure for employees' welfare

for the purpose of calculation of the value of fringe benefits.

- (iii) Clause (K) is proposed to be omitted. Hence any expenditure on or payment made for maintenance of any accommodation in the nature of guest house shall not be included for valuation of fringe benefits.

Further, clause (c) and clause (d) of sub-section (1) of section 115WC is proposed to be amended so as to provide that the value of fringe benefits on account of expenditure on festival celebration shall be twenty per cent as against the existing rate of fifty per cent.

These amendments shall take effect from 1st April, 2009 and shall accordingly apply in relation to assessment year 2009- and subsequent years.

It is proposed to insert a new section 115WKB to provide that where fringe benefit tax (with respect to allotment or transfer of specified security or sweat equity shares) has been paid by the employer and subsequently recovered from the employee, the recovery of fringe benefit tax shall be deemed to be the tax paid by such employee in relation to value of fringe benefits provided to him. The deeming provision shall apply only to the extent to which the amount of recovery relates to the value of the fringe benefits provided to such employee.

H. Securities Transaction Tax

Rationalisation of provision of Securities Transaction Tax

Section 98 of Chapter VII of Finance (No.2) Act, 2004, provides for charge of securities transaction tax (STT). It is

provided that in the case of sale of a derivative, where the transaction of such sale is entered into in a recognised stock exchange, the securities transaction tax will be at the rate of 0.017 per cent and will be payable by the seller.

It is proposed to amend section 98 and 99 so as to provide that,

- (i) In case of sale of an option in securities, STT shall be levied at the rate of 0.017 per cent of the option premium and shall be paid by the seller;
- (ii) In case of sale of an option in securities, where option is exercised, STT shall be levied at the rate of 0.125 per cent of settlement price and shall be paid by the purchaser; and
- (iii) In case of sale of a futures in securities, STT shall be levied at 0.017 per cent and shall be payable by the seller.

This amendment will take effect from 1st June, 2008.

At present, the amount of STT paid is allowed as rebate under section 88-E of the Income-tax Act. This rebate is allowed when the income from taxable securities transactions is included under the head 'profits and gains of business or profession'.

It is proposed to discontinue the rebate available to such assessee under section 88-E of the Income-tax Act. Hence, no rebate under section 88E shall be allowed to the assessee in, or after, the assessment year beginning on the 1st day of April, 2009.

This amendment will take effect from 1st April, 2008.

Further, it is proposed that any amount of securities transaction tax paid by the assessee during the year in respect of taxable securities transactions entered into in the course of business shall be allowed as deduction under section 36 of the Income-tax Act subject to the condition that such income from taxable securities transactions is included under the head 'profits and gains of business or profession'.

This amendment will take effect from 1st April, 2009 and will accordingly apply in relation to assessment year 2009-10 and subsequent assessment years.

I. Banking Cash Transaction Tax

Discontinuation of Banking Cash Transaction Tax

It is proposed to introduce a sunset clause by inserting a new sub-section (3) in section 95 of the Finance Act, 2005. The proposed new sub-section provides that no BCTT shall be charged in respect of any taxable banking transaction after the 31st day of March, 2009.

This amendment will take effect from 1st April, 2009.

J. Customs Duty

Major proposals about customs duties are the following:

a. Project Imports

Customs duty on project imports attracting 7.5 per cent has been reduced to 5 per cent.

b. Chemicals and Petrochemicals

- (i) Customs duty on crude and unrefined sulphur has been reduced from 5 per cent to 2 per cent.
- (ii) Customs duty on phosphoric acid has been unified at 5 per cent irrespective of its use.
- (iii) Customs duty exemption presently available on naphtha for manufacture of specified polymers has been withdrawn.

c. Export Promotion

- 1) Customs duty on unworked or simply prepared corals has been reduced from 10 per cent to 5 per cent.
- 2) Customs duty on rough cubic zirconia has been reduced from 5 per cent to Nil.
- 3) Customs duty on cubic zirconia (polished) has been reduced from 10 per cent to 5 per cent.
- 4) Customs duty on tuna bait has been reduced from 30 per cent to Nil.
- 5) Customs duty on specified machinery for manufacture of sports goods has been reduced from 7.5 per cent to 5 per cent.
- 6) Customs duty on specified raw materials for manufacture of sports goods for export has been reduced from 10 per cent to Nil, up to 3 per cent of FOB value of exports in the preceding year.

d. Dairy/Poultry

- 1) Customs duty on bactofuges has been reduced from 7.5 per cent to Nil.
- 2) Customs duty on feed additives/pre-mixes has been reduced from 30 per cent to 20 per cent.

e. Information Technology/Electronic Industry

- 1) Customs duty on specified convergence products has been reduced from 10 per cent to 5 per cent.
- 2) Customs duty on specified raw materials and inputs for use in IT/electronic hardware industry has been reduced from 10 per cent/7.5 per cent to Nil, on end-use basis.
- 3) Customs duty on specified parts of set-top boxes has been reduced from 7.5 per cent to Nil on end-use basis.

f. Drug and Kits

- 1) Customs duty on six specified drugs/kits, and bulk drugs for their manufacture, has been reduced from 10% to 5% with Nil. CVD by way of excise duty exemption. These drugs are used in the treatment of cancer/diabetes/asthma/Hepatitis B etc.
- 2) Customs duty on specified raw materials for manufacture of ELISA kits has been reduced from 10%/7.5% to 5%.

g. Metals

- 1) Customs duty on iron or steel melting scrap has been reduced from 5 per cent to Nil.
- 2) Customs duty on aluminium scrap has been reduced from 5 per cent to Nil.

h. National Calamity Contingency Fund

National Calamity Contingent duty of 1 per cent currently leviable on Polyester filament yam has been withdrawn.

i. Other relief measures:

- 1) Customs duty on specified raw materials for tyre industry has been reduced from 10 per cent to 5 per cent.
- 2) Customs duty on helicopter simulators has been reduced from 10 per cent to Nil.

j. Tobacco Products

Customs duty on cigars, cheroots and cigarillos has been increased from 30% to 60%.

Additional Duty of Customs

Exemption from additional duty of customs of 4 per cent levied under section 3(5) of Customs Tariff Act, 1975 has been withdrawn from power generation projects (other than mega power projects), transmission, sub-transmission and distribution projects, and goods for high voltage transmission projects.

Export Duty

Export duty rate on chromium ores and concentrates, all sorts, has been increased from Rs.2000 PMT to Rs.3000 PMT.

Miscellaneous:

- 1) The period for re-export of leased equipment and machinery, imported for temporary use in contracts, has been increased from 12 months to 18 months. The slab rates of duty applicable on such imports have now been provided on a quarterly basis, as against half-yearly basis provided earlier. The rates have also been aligned with the rates of drawback admissible under section 74(2) of the Customs Act, 1962, depending on the period of retention of the goods in India. No drawback, however, will be admissible when such leased goods are re-exported.
- 2) The rates of drawback, in respect of goods which have been used after importation, have been aligned with the rates prescribed for duty payable on leased equipment and machinery, imported for temporary use in contracts, depending on the period of retention in India. The maximum period of retention of such goods, for admissibility of drawback, has been reduced from 36 months to 18 months.
- 3) Concessional customs duty of 5 per cent provided on polymer long rod insulators has been restricted to polymer long rod insulators of 765 KV rating only.
- 4) Customs duty and CVD on 0.177 calibre airguns have been exempted. Consequently, 4 per cent additional duty of customs shall also be exempted on these airguns.
- 5) Tariff rate of Rs.2000 per 1000 Kwh has been prescribed on 'electrical energy'. However, the effective rate will continue to be Nil.

K. Central Excise

a. General CENVAT Rate

General rate of excise duty (CENVAT) has been reduced from 16 per cent to 14 per cent. The other ad valorem rates of 24 per cent, 12 per cent and 8 per cent remain unchanged.

b. Sector Specific Relief Measures

1. Drugs and Pharmaceuticals

- (a) Excise duty has been reduced from 16 per cent to 8 per cent on all drugs (formulations).
- (b) Excise duty has been reduced from 16 per cent to 8 per cent on:
 - (i) Instant sterile dressing pads, burn therapy pads, corn removers etc.
 - (ii) Sterile surgical catgut, sterile absorbable surgical and sterile tissue adhesive for wounds closure etc.
 - (iii) First aid boxes and kits, blood grouping reagents etc.
- (c) Excise duty has been fully exempted on Anti-AIDS drug ATAZANAVIR, and bulk drugs for its manufacture.

2. Auto Sector:

Excise duty has been reduced on:

- (a) Small cars from 16 per cent to 12 per cent.
- (b) Hybrid cars from 24 per cent to 14 per cent.
- (c) Electric cars from 8 per cent to nil.
- (d) Specified parts of electric cars from 16 per cent to nil on end-use basis.
- (e) Buses and other vehicle for transport of more than 13 persons from 16 per cent to 12 per cent, and on the chassis of such vehicles from '16 per cent + Rs.10,000/- to '12 per cent + Rs.10,000/-.
- (f) Two-wheelers and passenger three-wheelers (up to 7 persons) from 16 per cent to 12 per cent.

3. Food Processing Sector

- (i) Excise duty has been fully exempted on:
 - (a) Packaged tender Coconut water
 - (b) Paws, mudi (puffed rice) and the like
 - (c) Milk containing edible nuts
 - (d) Tea/coffee pre-mixes
- (ii) Excise duty has been fully exempted on specified refrigeration equipment for the installation of a cold storage, cold room or refrigerated vehicle, on end-use basis.

(iii) Excise duty has been reduced from 16 per cent to 8 per cent on

- (a) Muesli, corn flakes & similar breakfast cereals
- (b) Sharbats
- (c) Packaging material viz.,
 - Open Top Sanitary (OTS) cans
 - Aseptic packaging paper
 - Aseptic bags

4. Information Technology & Communication Sector

- (a) Excise duty has been fully exempted on Wireless data modern cards. Consequently, CVD shall also be exempted on imported cards; 4% additional duty of customs will, however, be applicable.
- (b) Excise duty has been reduced from 16 per cent to 8 per cent on specified convergence products.
- (c) Excise duty has been increased from 8 per cent to 12 per cent on packaged software.

5. Paper and Paper products

- a) Excise duty on writing paper, printing paper and packing paper has been reduced from 12 per cent to 8 per cent.
- b) Excise duty has been fully exempted on paper and paper products, manufactured from non-conventional raw materials, up to clearance of 3500 metric tonne in a year from a unit.

- c) Excise duty on paper and paper products, manufactured from non-conventional raw materials, beyond clearance of 3500 metric tonne per year from a unit (not having an attached bamboo/wood pulp plant) has been reduced from 12 per cent to 8 per cent.

c. Other Concessions

- 1) Excise duty has been fully exempted on:
 - (i) Composting machines
 - (ii) Menthol/Menthol Flakes
- 2) Excise duty has been reduced from 16 per cent to 8 per cent on:
 - (i) Water filtration and purification devices
 - (ii) Veneers & Flush doors
 - (iii) Heat resistant rubber tension tape.
- 3) Excise duty on pan masala, not containing tobacco, with betel nut content not more than 15%, has been reduced from 16% to 8%. It has also been exempted from National Calamity Contingent Duty.

d. Cement

- 1) Excise duty has been REVISED ON Bulk cement from "Rs.400 per tonne" to "14% or Rs.400 per tonne, whichever is higher"
- 2) Excise duty has been increased on Cement clinkers from Rs.350 per tonne to Rs.450 per tonne.

e. Cigarettes

At present, cigarettes attract duty at varying rates depending upon whether they are filter or non-filter

and their length, Excise duty rates on non-filter cigarettes have been enhanced to bring them at par with filter cigarettes of corresponding length. The revised rates of excise duty (basic + NCCD + health cess) on non-filter cigarettes are as under:

S. No.	Description	From (Rs. Per 1000)	To
Non-filter cigarettes			
1.	Not exceeding 60 mm in length	168	819
2.	Exceeding 60 mm but not exceeding 70 mm in length	546	1323

f. Petroleum

The duty rates on MS/HSD sold without a brand name have been converted from 'ad valorem + specific rate' to pure 'specific rate' as under:

S. No.	Description	From (Rs. Per 1000)	To
1.	Motor Spirit 6% + Rs.13 per litre		Rs.14.35 per litre
2.	HSD 6% + Rs.3.25 litre		Rs.4.60 per litre

The duty rates on branded fuels would continue to attract the present ad valorem cum specific rates i.e. as under:

- a) Motor Spirit : 6% + Rs.13 per litre
- b) HSD : 6% + Rs.3.25 per litre

g. National Calamity Contingency Fund

- 1) National Calamity Contingent duty (NCCD) at the rate of 1 per cent has been imposed on mobile phones. On imported mobile phones, this duty shall be levied as additional duty of Customs under section 3(1) of the Customs Tariff Act, 1975.

- 2) National Calamity Contingent duty of 1 per cent currently leviable on Polyester filament yam has been withdrawn.

h. Miscellaneous

- 1) General SSI exemption has been extended on HDPE/PP tapes consumed captively in the manufacture of sacks/bags. The change will come into effect from 1st April, 2008.
- 2) The rate of duty applicable to clearance of goods to domestic tariff area from export oriented units, software technology parks, electronic hardware technology parks etc., has been revised from '25 per cent of the basic customs duty + excise duty payable on like goods' to 50 per cent of the basic customs duty + excise duty payable on like goods'.
- 3) Excise duty exemption on "shuttle-less looms" has been withdrawn. These goods will not attract 8 per cent excise duty/CVD.
- 4) Consequent upon reduction of excise duty rates on specified goods leviable to excise duty on retain sale price basis, abatement rates for such goods have been revised suitably.

L. Service Tax

(1) Following Services are Individually Specified as Taxable Service

- 1) Services provided in relation to information technology software for use in the course, or

furtherance, of business or commerce;

- 2) Services provided in relation to management of investment, under unit linked insurance business, commonly known as Unit Linked Insurance Plan (ULIP) scheme;
- 3) Services provided by a recognised stock exchange in relation to securities;
- 4) Services provided by a recognised association or a registered association (commodity exchange) in relation to sale or purchase of any goods or forward contracts;
- 5) Services provided by a processing and clearing house in relation to processing, clearing and settlement of transactions in securities, goods or forward contracts;
- 6) Services provided in relation to supply of tangible goods, without transferring rights of possession and effective control of the tangible goods;
- 7) Services provided in relation to internet telecommunication. Consequently, reference to services provided in relation to internet telephony, being covered as part of internet telecommunication, shall be omitted.

The above changes will come into effect from a date to be notified after the enactment of the Finance Bill, 2008.

(II) Scope of Specified Taxable Services is being amended as follows

1) To include,-

- (i) Purchase or sale of foreign currency, including money changing, by an authorised dealer or an authorised money changer, under banking and other financial service;
- (ii) Purchase or sale of foreign currency, including money changing, by an authorised dealer or authorized money changer, under foreign exchange broker services provided by individual;
- (iii) Packing together with transportation of cargo or goods, with or without one or more other services like loading, unloading, unpacking, under cargo handling service;
- (iv) Testing or analysis of information technology software under technical testing and analysis service;
- (v) Inspection, examination and certification of information technology software under technical inspection and certification service;
- (vi) Services provided in relation to a journey from one place to another in a contract carriage vehicle, under tour operator service. However,

such services provided for use by an educational body, other than a commercial training or coaching centre, imparting skill or knowledge or lessons on any subject or field shall be excluded. Services provided in relation to a journey from one place to another in a tourist vehicle is already leviable to service tax under tour operator service;

2) To omit,-

- (i) From business auxiliary service, reference to information technology service consequent upon notifying information technology software service as a separate taxable service;
- (ii) From consulting engineer service, exclusion of computer software engineering consultancy consequent upon notifying information technology software service as a separate taxable service;
- (iii) From 39 specified taxable service, reference to service recipient as "client" or "customer" and replace with the words "any person";

The above changes will come into effect from a date to be notified after the enactment of the Finance Bill, 2008.

- 3) To clarify that services provided by a consulting engineer in relation to advice, consultancy or technical assistance in the disciplines of both computer hardware engineering and

computer software engineering shall also be classifiable under consulting engineer service;

4) To clarify by way of removal of doubt that,-

(i) "service in relation to promotion or marketing of service providing by the client" under business auxiliary service includes any service provided in relation to promotion or marketing of games of chance, organised, conducted or promoted by the client;

(ii) Renting of immovable property service includes allowing or permitting the use of space in an immovable property.

(iii) "properties" referred to in management, maintenance or repair service includes information technology software.

(III) Exemption from Service Tax

1) The annual threshold limit of service tax exemption for small service providers is being increased from the present level of Rs.8 lakh to Rs.10 lakh;

2) Exemption from service tax is being provided to,-

(i) The taxable service provided by a person located outside India for a customer located outside India, and received by a hotel located in India, in relation to booking of an accommodation in the said hotel located in India;

(ii) 75% of the gross amount charged as freight for services provided in relation to transport of goods by road in a goods carriage by a goods transport agency (GTA), unconditionally. Consequently, 75 per cent abatement provided under notification No.1/20006-Service tax, dated the 1st March, 2006 is withdrawn.

Exemption specified in,-

(a) 2(i) and 2(ii) will come into effect from 1st March, 2008, and

(b) (1) will come into effect from 1st April, 2008.