# A Synoptic Guide

# To

# Union Budget of India 2017

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## Foreword

This is the fourth budget and third full year budget by the NDA Government. It was presented amidst very high expectations of announcement of big bang reforms in the multiple sectors by a government, which is not only considered as Government of Reforms but also which enjoys unprecedented majority in the lower house of parliament. This union budget was much awaited by the industry and the whole of India including the overseas stakeholders in the light of key economic developments of the current year like Model GST law and demonetization. The Finance Minister delivered a balanced budget, however it was not impressive. The GDP growth of 6.75%-7.5% and fiscal deficit of 3.2% looks a bit of ambitious. The direct tax and indirect tax reforms are just average. The industry and the key sectors are yet to understand and arrive at conclusive decision about the impact of budget. We leave it to the readers to judge and analyze the budget from their view point. We have endeavored to fairly bring all the aspects of the budget in this write up which will help you to analyze the proposals of the government.

The agenda of the budget was based on 10 pillars: Farmer, Rural Population, Youth, Poor and Unprivileged, Infrastructure, Financial Sector, Digital Economy, Public Services, Fiscal Management and Tax Administration.

## Highlights

| S. N. | Themes | Key Points |
|---|---|---|
| **1.** | Farmers | ➢ Farmer credit fixed at record level of Rs. 1,000 crore; will ensure adequate flow to underserved areas.<br>➢ Soil health cards: Govt. to set up mini-labs in Krishi Vigyan Kendras.<br>➢ Long-term irrigation fund in NABARD — corpus at Rs. 40,000 crore.<br>➢ Model law on contract farming to be circulated.<br>➢ Dairy processing infra fund with corpus of Rs. 8,000 crore.<br>➢ Dedicated micro-irrigation fund with Rs. 5,000 crore corpus. |
| **2.** | Rural Population | ➢ Mission Antyodaya to bring 1 crore households for poor.<br>➢ MGNREGA: Rs. 48,000 crore has been allocated; participation of women now at 55%; using space technology in a big way<br>➢ Prime Minister Gram Sadak Yojana: Rs. 19,000 crore allocated; along with states, Rs. 27,000 crore will be spent in FY18<br>➢ Pradhan Mantri Awas Yojana: Rs. 23,000 crore allocated<br>➢ 100% village electrification by May 2018<br>➢ Rural livelihood mission: Rs. 4,500 crore allocated<br>➢ Mason training to be provided for 5 lakh people<br>➢ Panchayat Raj: Human resource reform programme to be launched<br>➢ Rs. 187,223 crore allocated for rural programmes |
| **3.** | Youth | ➢ **Education**: System of measuring annual learning outcomes, emphasis on science<br>➢ Innovation fund for secondary education<br>➢ Reforms in UGC: Colleges to be identified based on ranking and given more autonomy |

| S. N. | Themes | Key Points |
|---|---|---|
| | | ➢ Propose to leverage information technology with launch of SWAYAM platform for virtual learning<br>➢ National testing agency to be established for all entrance exams, freeing up CBSE, AICTE and other bodies<br>➢ 100 Indian international skill centres to be established with courses in foreign languages<br>➢ Rs. 4,000 crore allocated to launch skill acquisition and knowledge awareness<br>➢ Special scheme for creating employment in leather/footwear sector<br>➢ Tourism: Five special zones to be set up |
| **4.** | Poor and Un-privileged | ➢ Women: Mahila Shakti Kendras with Rs. 500 crore corpus<br>➢ Stepped up allocation to Rs. 184 crores for various schemes for women and children<br>➢ Affordable housing to be given infrastructure status<br>➢ Action plan to eliminate leprosy by 2018, TB by 2025, reduce IMR to 29 in 2019<br>➢ To create additional PG medical seats per annum<br>➢ Two new AIIMS in Jharkhand and Gujarat<br>➢ New rules to be introduced for medical devices<br>➢ Labour rights: Legislative reforms to simplify and amalgamate existing labour laws<br>➢ Allocation to SCs increased to Rs. 52,393 crore; STs given Rs. 31,920 crore, minority affairs allocated Rs. 4,195 crore<br>➢ Senior citizens: Aadhaar-based smart cards with health details to be provided |
| **5.** | Infrastructure | ➢ Total capex and development expenditure of railways pegged at Rs. 131 crore<br>➢ Railways: Passenger safety—Safety fund corpus set up; unmanned level crossings to be eliminated by 2020<br>➢ Railway lines of 3,500 km to be commissioned<br>➢ To launch dedicated tourism/pilgrimage trains<br>➢ 500 stations to be made differently-abled friendly<br>➢ Cleanliness in railways: To introduce Coach Mitra facility; By 2019, bio-toilets for all coaches<br>➢ Railways to offer competitive ticket-booking facility; service charge withdrawn for tickets booked on IRCTC<br>➢ New metro rail policy to be announced<br>➢ Roads sector: Allocation for national highways at Rs. 64,000 crore<br>➢ Airports Authority of India Act to be amended to enable monetization of land resources<br>➢ Total allocation to transport sector at Rs. 200 crore<br>➢ Telecom sector: Allocation to Bharat Net programme at Rs. 10,000 crore<br>➢ Digi-Gaon initiative to be launched<br>➢ To make India global hub for electronics manufacturers<br>➢ Export infra: New restructured central scheme to be launched<br>➢ Total allocation for infrastructure: Rs. 396 crore |
| **6.** | Financial Sector | ➢ Foreign Investment Promotion Board (FIPB) to be abolished |

| S. N. | Themes | Key Points |
|---|---|---|
| | | ➢ Commodities market: panel to study legal framework for spot and derivative markets<br>➢ Resolution mechanism for financial firms<br>➢ Cyber-security: Computer emergency response team to be set up<br>➢ Listing of PSEs will foster public accountability; revised mechanism for time-bound listing<br>➢ To create integrated public sector oil major (by merging various oil sector entities)<br>➢ New ETF to be launched<br>➢ Pradhan Mantri Mudra Yojana: Lending target at Rs. 244 crore<br>➢ Stand-up India scheme: over 16,000 new enterprises have been set up |
| **7.** | Digital Economy | ➢ India at cusp of massive digital revolution<br>➢ Govt to launch two new schemes to promote BHIM app, including cashback scheme for merchants<br>➢ Aadhaar Pay to be launched for people who don't have mobile phones<br>➢ Focus on rural and semi-urban areas<br>➢ To strengthen financial inclusion fund<br>➢ Panel on digital payments has recommended structural reforms<br>➢ To create payment regulatory board at RBI |
| **8.** | Public Services | ➢ To use head post-office for passport services<br>➢ Defence: centralized defence travel system developed<br>➢ Defence: Centralized pension distribution system to be established<br>➢ Govt recruitment: To introduce two-tier exam system<br>➢ Govt looks to introduce laws to confiscate assets of economic defaulters<br>➢ High-level panel chaired by PM to commemorate Mahatma Gandhi's 150th birth anniversary |
| **9.** | Fiscal Management | ➢ Total budget expenditure: Rs. 210 crore<br>➢ Rs. 3,000 crore to implement various budget announcements<br>➢ Defence expenditure excluding pensions: Rs. 274 crore<br>➢ Consolidated outcome budget for all ministries being created<br>➢ Fiscal deficit for FY18 pegged at 3.2% of GDP<br>➢ Revenue deficit for FY18 at 1.9% |
| **10.** | Tax Administration | ➢ Direct tax collection not commensurate with income/expenditure pattern of India.<br>➢ We are largely a tax non-compliant society, predominance of cash in society enables tax evasion<br>➢ After demonetization, data received will increase tax net<br>➢ Black money: No cash transactions above Rs. 3 lakh.<br>➢ Transparency in political funding: Parties continue to receive anonymous donations; propose system of cleaning up<br>➢ Political funding: Maximum amount of cash donation that can be received is Rs 2,000; political parties can receive donations by cheques or digitally; amendment proposed to RBI Act to issue electoral bonds; every party has to file returns within specified time |

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| S. N. | Themes | Key Points |
|---|---|---|
| | | ➢ Personal income tax: Rate reduced to 5% for income bracket of Rs. 2.5-5 lakh; All other categories to get uniform benefit of Rs. 12,500 per person; to levy surcharge on income bracket Rs. 50 lakh – Rs. 1 crore<br>➢ Personal income tax: To have simple one-page form for taxable income up to Rs 5 lakh<br>➢ GST: preparedness of IT system on schedule<br>➢ Not many changes to excise duties since GST will be implemented soon<br>➢ FPI category 1 and 2 investors exempted from indirect transfer provisions<br>➢ Time period of revising tax returns reduced to 12 months<br>➢ Real estate: to make changes in capital gains tax<br>➢ Concessional withholding rate will be extended to 30 June 2020, rupee-denominated masala bonds to be included<br>➢ MAT not to be abolished at present; to allow carry-forward for 15 years<br>➢ Corporate tax rate: MSMEs' rate (annual turnover less than Rs. 50crore) reduced to 25%<br>➢ LNG: Reduce customs duty to 2.5%<br>➢ Limit of cash donation for charitable trusts cut to Rs. 2,000. |

**Common man expectations vs actual**

Expectations were to present a standout budget that would not just introduce a number of reforms, but also provide a lot of income tax exemptions to give relief to the wider public in the wake of the inconvenience caused by Centre's de-monetization drive.

Expectations were also rife that there would be a major announcement on indirect taxes too to take a lot of weight off the beleaguered corporate India's shoulders and bring in measures to ease the conduct of business in India.

Let us see the actuals against the expectations. A mere tax relief of Rs. 12,500 across the board. The Finance Minister would have won the hearts and minds of the middle class had he completely spared from income tax those whose income is not more than Rs. 5 lakh. Indeed, a person earning upto Rs. 40,000 per month deserves to be left untouched by income tax. We hope the Finance Minister will consider this in his next budget.

The ebullient team of Exactitude shall be pleased to assist you in identifying and analyzing the impact of Union Budget 2017 on your business. Please do not hesitate to contact us for any clarification/ detailed impact analysis as customized to you.

Sincerely;

Team Exactitude

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# 1. ECONOMIC INDICATORS

The economy performed well as expected and remained emerging during the fiscal year. The summary on performance of the various economic indicators follows:

## 1.1. GDP GROWTH

The GDP growth rate was projected to remain in between 7.0-7.75 per cent in the Economic Survey 2015-16. However, the real GDP growth rate was 7.2 percent in the first half and below 7.6 in the second half. Thus, the projected target was achieved due to the following main reasons:

1. The modest pick-up in agricultural growth on the back of improved monsoon.

2. The long-awaited start of an export recovery due to acceleration in demand in some advanced countries.

3. Moderation in industrial and non-government service sectors.

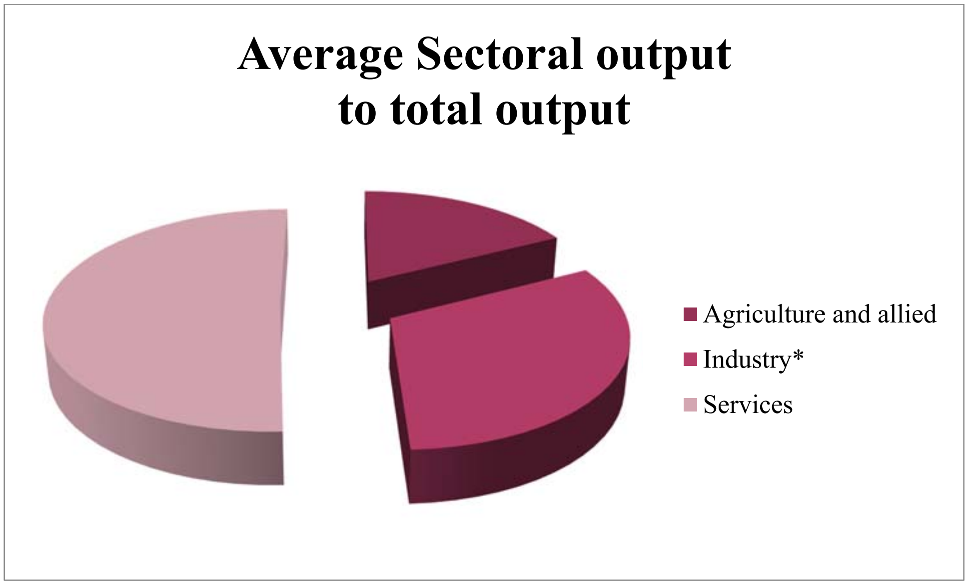
4. The economy was buoyed by government consumption, as the 7th Pay Commission salary recommendations were implemented.

5. Downtrend in the inflation characterized by two distinct indices - Consumer Price Index (CPI) and Wholesale Price Index (WPI). The inflation has narrowed considerably and hovered around 4.5 percent to 5 percent for the year. The outlook in the year to come will continue to be below 5% i.e. RBI's target which will likely be supported by demonetization move by the Government.

The Global economy remaining sluggish during the last year facing considerable uncertainty, in the aftermath of major economic and political developments. The International Monetary Fund (IMF) estimates that world GDP will grow by 3.1% in 2016 and 3.4% in 2017. The advanced economies are expected to increase their growth from 1.6% to 1.9% and the emerging economies from 4.1% to 4.5%. A number of emerging economies around the globe is expected to recover in 2017 as compared to 2016. In this race around the world, India seems to be placed better and one of the fastest growing economy. The Finance Ministry has observed Indian Economy to be a bright spot in the World Economy.

**Sectoral growths in GDP in India**

The average sectorial GVA by sector is:




## a. Agriculture

Agriculture comprises of crops including fruits and vegetables and allied sectors consisting of livestock products, forestry and fisheries.

The growth of agriculture & allied sectors improved significantly in 2016-17, following the normal monsoon in the current year which was preceded by sub-par monsoon rainfall in 2014-15 and 2015-16. Higher growth in agriculture sector in 2016-17 is attested by the first advance estimates of the kharif crop production for the year.

**Exactitude annotations:**

Agriculture has always been an important sector in the context of Indian economy as major of the population are dependent on this sector. This sector has been sluggish over the years because of the high dependency on the traditional methods and natural monsoons.

Adequate measures like the improvement in the farming methods, related development of awareness in the farmers, irrigation facilities etc. should be taken by the Government to increase the produce. The increase in population is not being counterbalanced by the increase in the agricultural produce which is a serious sign of food deficit.

In such a situation, the Government should announce certain policies on this sector in the budget like:

1. Incentives to the farmers like loans at concessional rates
2. Awareness programs for the modern farming techniques
3. Incentives to the corporate houses who want to invest in allied services related to the agriculture like setting up irrigation facilities, storage of the produce, transportation of the produce etc.

These are nominal measures that the Government of India should take in order to save the economy.

Let's analyse how the Finance Minister has addressed this sector in his budget 2017.

"Farmers" was the first agenda in the budget speech by Hon'ble Finance Minister. He reminded that the government was strived to double the income of the farmers in 5 years. The budget 2017 is the budget of rural development including agriculture.

The key proposals in the budget relating to agriculture are:

- The target for agricultural credit in 2017-18 has been fixed at a record level of Rs. 10 lakh crore.
- Benefit from 60 days' interest waiver announced by Hon'ble Prime Minister in respect of their loans from the cooperative credit structure.
- Support to NABARD for computerization and integration of all 63,000 functional Primary Agriculture Credit Societies (PACS) with the Core Banking System of District Central Cooperative Banks. This will be done in 3 years at an estimated cost of Rs. 1,900 crore, with financial participation from State Governments. This will ensure seamless flow of credit to small and marginal farmers.
- The ***Fasal Bima Yojana*** launched by the Government is a major step towards the insurance of crops. The coverage of this scheme will be increased from 30% of cropped area in 2016-17 to 40% in 2017-18 and 50% in 2018-19. The Budget provision of Rs. 5,500 crores for this Yojana in 2016-17 was increased to Rs. 13,240 crores in 2016-17 to settle the arrear claims. For 2017-18, a sum of Rs. 9,000 crores has been provided. The sum insured under this Yojana has more than doubled from Rs. 69,000 crores in Kharif 2015 to Rs. 141,625 crores in Kharif 2016.
- A Long Term Irrigation Fund already set up in NABARD has been doubled by addition of 20,000 crores by Honorable Prime Minister making the total corpus of Rs. 40,000 crores.
- A dedicated Micro Irrigation Fund will be set up in NABARD to achieve the goal 'per drop more crop'. The Fund will have an initial corpus of Rs. 5,000 crores.
- For the post-harvest phase, steps will be taken to enable farmers to get better prices for their produce in the markets. The coverage of National Agricultural Market (e-NAM) will be expanded from the current 250 markets to 585 APMCs. Assistance up to a ceiling of Rs. 75 lakhs will be provided to every e-NAM market for establishment of cleaning, grading and packaging facilities. This will lead to value addition of farmers' produce.
- A Dairy Processing and Infrastructure Development Fund would be set up in NABARD with a corpus of Rs. 8,000 crore over 3 years which will provide additional income for the farmers. Initially, the Fund will start with a corpus of Rs. 2,000 crores.
- The above proposals shows the intention of the Government as farmer-friendly and towards sustaining the food surplus. The industries into the irrigation, food processing, micro finance, fruits, fertilizers etc. are likely to get advantages of these proposals.

**b. Services**

Service Sector comprises of more than half of the Indian Economy and continues to expand its share in the economy. The major growth in Indian economy as compared to last year was contributed by this sector.

As in the previous years, the service sector continued to be the dominant contributor to the overall growth of the economy, led by a significant pick-up in public administration, defense & other services that were boosted by the payouts of the Seventh Pay Commission. Consequently, the growth in services in 2016-17 is estimated to be close to what it was in 2015-16.

**Exactitude annotations:**

Service sector remains the back bone of the Indian Economy and ever increasing. The union budget identifies this sector as key for growth driver.

Let's analyse how the Finance Minister has addressed this sector in his budget 2017.

The key proposals in the budget relating to service are:

**Water:**

- Safe drinking water to over 28,000 arsenic and fluoride affected habitations in the next four years. This will be a sub mission of the National Rural Drinking Water Programme (NRDWP).

**Education and skills**

- For imparting new skills to the people in the rural areas, mason training will be provided to 5 lakh persons by 2022, with an immediate target of training at least 20,000 persons by 2017-18.
- An Innovation Fund for Secondary Education will be created to encourage local innovation for ensuring universal access, gender parity and quality improvement. This will include ICT enabled learning transformation. The focus will be on 3479 educationally backward blocks.
- Reforms in the UGC. Good quality institutions would be enabled to have greater administrative and academic autonomy. Colleges will be identified based on accreditation and ranking, and given autonomous status.
- Leverage information technology and launch SWAYAM platform with at least 350 online courses. This would enable students to virtually attend the courses taught by the best faculty; access high quality reading resources; participate in discussion forums; take tests and earn academic grades. Access to SWAYAM would be widened by linkage with DTH channels, dedicated to education.
- Establish a National Testing Agency as an autonomous and self-sustained premier testing organization to conduct all entrance examinations for higher education institutions. This would free CBSE, AICTE and other premier institutions from these administrative responsibilities so that they can focus more on academics.

**Housing**

- Affordable housing will now be given infrastructure status

- The National Housing Bank will refinance individual housing loans of about Rs.20,000 crore in 2017-18. Thanks to the surplus liquidity created by de-monetization, the Banks have already started reducing their lending rates, including those for housing. In addition, interest subvention for housing loans has also been announced by the Honorable Prime Minister.

**Health and sanitation**

- An action plan to eliminate Kala-Azar and Filariasis by 2017, Leprosy by 2018 and Measles by 2020. Elimination of tuberculosis by 2025 is also targeted.
- Action plan has been prepared to reduce IMR from 39 in 2014 to 28 by 2019 and MMR from 167 in 2011-13 to 100 by 2018-2020.
- 1.5 lakh Health Sub Centers will be transformed into Health and Wellness Centers.
- Steps to create additional 5,000 Post Graduate seats per annum. In addition, steps will be taken to roll out DNB courses in big District Hospitals; strengthen PG teaching in select ESI and Municipal Corporation Hospitals; and encourage reputed Private Hospitals to start DNB courses.
- Necessary steps for structural transformation of the Regulatory framework of Medical Education and Practice in India.
- Two new All India Institutes of Medical Sciences will be set up in the States of Jharkhand and Gujarat.
- Amendment in the Drugs and Cosmetics Rules to ensure availability of drugs at reasonable prices and promote use of generic medicines. New rules for regulating medical devices will also be formulated. These rules will be internationally harmonised and attract investment into this sector. This will reduce the cost of such devices.
- For senior citizens, Aadhar based Smart Cards containing their health details will be introduced. A beginning will be made through a pilot in 15 districts during 2017-18. The LIC will implement a scheme for senior citizens to provide assured pension, with a guaranteed return of 8% per annum for 10 years.

**Tourism**

- Tourism is a big employment generator and has a multiplier impact on the economy. Five Special Tourism Zones, anchored on SPVs, will be set up in partnership with the States. Incredible India 2.0 Campaign will be launched across the world.

### c. Industry

Industry comprises of Manufacturing and other three segments i.e. (1) electricity, gas, water supply and related utilities (2) Mining and quarrying and (3) Construction activities.

After achieving a real growth of 7.4 per cent in terms of value added in 2015-16, the growth in industrial sector, comprising mining & quarrying, manufacturing, electricity, gas & water supply, and construction sectors moderated in 2016-17. This is in tandem with the moderation in manufacturing, mostly on account of a steep contraction in capital goods, and consumer non-durable segments of Index of Industrial Production (IIP).

The contraction in mining and quarrying largely reflects slowdown in the production of crude oil and natural gas. However, the performance of industrial sector in terms of value added continued to be at variance with its achievements based on IIP.

The ongoing manufacturing recovery in the current year is aided by robust growth in petroleum refining, automobiles, wearing apparels, chemicals, electrical machinery and wood products and furniture.

Apart from manufacturing, the other three segments of the industry sector, i.e. electricity, gas, water supply and related utilities, mining and quarrying and construction activities, are witnessing a deceleration in growth.

**Exactitude annotations:**

Industry remains a critical force in both developing and advanced economies. This sector promotes innovation, productivity and employment.

This sector must be further promoted by the policy maker in a more comprehensive manner with the understanding of the diverse industry segments in a national or regional economy. The changing trends give rise to innovation and ultimately production.

Let's analyse how the Finance Minister has addressed this in his budget 2017.

**Railway budget**

- For the first time, the railway budget has been clubbed with the fiscal budget. The total outlay on the railway development and capex has been pegged at Rs. 131,000 crores. These will be used to build the necessary infrastructure and ensure the following:

  (i) Passenger Safety (ii) Capital and development works

  (iii) Cleanlines and (iv) Finance and accounting reforms.

- For passenger safety, a Rashtriya Rail Sanraksha Kosh will be created with a corpus of Rs. 1 lakh crores over a period of 5 years. Besides seed capital from the Government, the Railways will arrange the balance resources from their own revenues and other sources. Government will lay down clear cut guidelines and timeline for implementing various safety works to be funded from this Kosh. Unmanned level crossings on Broad Gauge lines will be eliminated by 2020. Expert international assistance will be harnessed to improve safety preparedness and maintenance practices.
- Railway lines of 3,500 kms will be commissioned in 2017-18, as against 2,800 kms in 2016-17. Steps will be taken to launch dedicated trains for tourism and pilgrimage.
- A beginning has been made with regard to station redevelopment. At least 25 stations are expected to be awarded during 2017-18 for station redevelopment. 500 stations will be made differently abled friendly by providing lifts and escalators.

- It is proposed to feed about 7,000 stations with solar power in the medium term. A beginning has already been made in 300 stations. Works will be taken up for 2,000 railway stations as part of 1000 MW solar mission.
- The focus is on swachh rail. SMS based Clean My Coach Service has been started. It is now proposed to introduce 'Coach Mitra' facility, a single window interface, to register all coach related complaints and requirements. By 2019, all coaches of Indian Railways will be fitted with bio toilets. Pilot plants for environment friendly disposal of solid waste and conversion of biodegradable waste to energy are being set up at New Delhi and Jaipur railway stations. Five more such solid waste management plants are now being taken up.
- Railways will offer competitive ticket booking facility to the public at large. Service charge on e-tickets booked through IRCTC has been withdrawn. Cashless reservations have gone up from 58% to 68%.
- As part of accounting reforms, accrual based financial statements will be rolled out by March 2019.

**Transportation**

- For this sector as a whole, including rail, roads, shipping, the Government has provided Rs. 241,387 crores in 2017-18.
- This is a huge investment that will spur a huge amount of economic activity across the country and create more job opportunities.

**Telecom and communications**

- The recent spectrum auctions have removed spectrum scarcity in the country. This has given a major fillip to mobile broadband and Digital India for the benefit of people living in rural and remote areas. This has been a considerable achievement of the current government.
- Under the BharatNet Project, Optical Fibre has been laid on 155,000 kms. The budget allocation for BharatNet Project has been extended to Rs. 10,000 crores in 2017-18. By the end of 2017-18, high speed broadband connectivity on optical fibre will be available in more than 150,000 gram panchayats, with wifi hot spots and access to digital services at low tariffs. A Digi-Gaon initiative will be launched to provide tele-medicine, education and skills through digital technology.

**Energy**

- Government has decided to set up Strategic Crude Oil Reserves. In the first phase, 3 such Reserves facilities have been set up. Now in the second phase, it is proposed to set up caverns at 2 more locations, namely, Chandikhole in Odisha and Bikaner in Rajasthan. This will take our strategic reserve capacity to 15.33 MMT.
- The finance minister has proposed to take up the second phase of Solar Park development for additional 20,000 MW capacity.

**Manufacturing**

- The government is committed to create an eco-system to make India a global hub for electronics manufacturing.

> - Over 250 investment proposals for electronics manufacturing have been received in the last 2 years, totaling an investment of Rs. 1.26 lakh crores.
> - A number of global leaders and mobile manufacturers have set up production facilities in India. I have therefore exponentially increased the allocation for incentive schemes like M-SIPS and EDF to Rs. 745 crores in 2017-18.

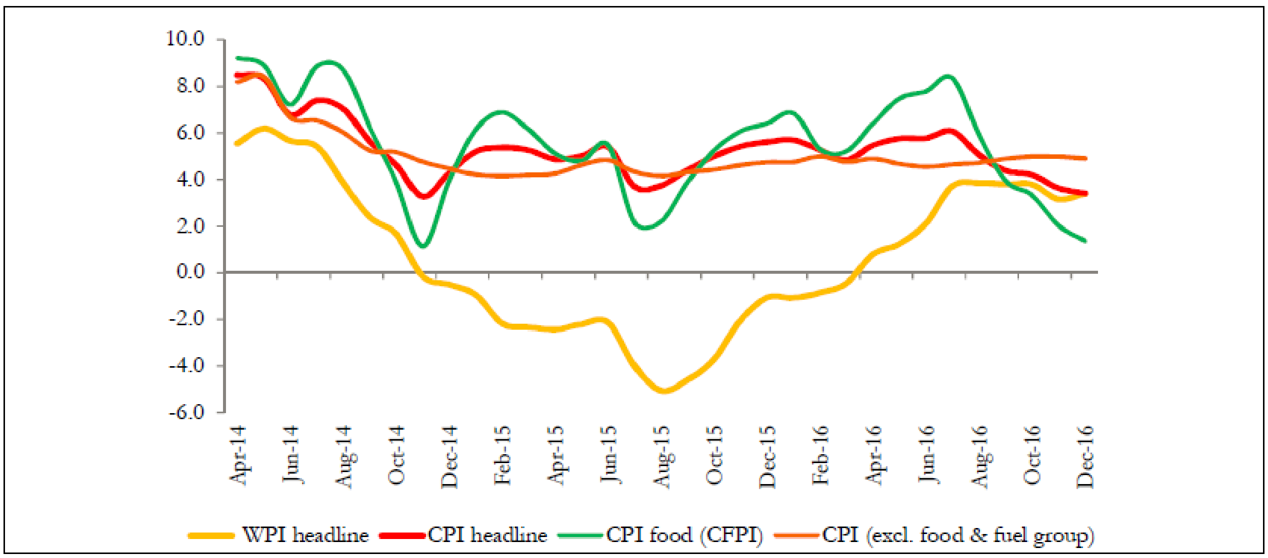
## 1.2. WPI AND CPI GROWTH

The inflation was under control as measured by the Consumer Price Index (CPI) and wholesale Price Index.

The average CPI inflation declined to 4.9 per cent in 2015-16 from 5.9 per cent in 2014-15. It was 4.8 per cent during April- December 2016. Inflation hardened during the first few months of 2016-17, mainly due to upward pressure on the prices of pulses and vegetables. It dipped to two-year low of 3.4 per cent in December 2016 as a result of lower prices, especially of food items.

The average inflation based on the wholesale price index (WPI) declined to (-) 2.5 per cent in 2015-16 from 2.0 per cent in 2014-15. The downward trend, however reversed during the current financial year partly due to impact of rise in global commodity prices and partly owing to adverse base effect. The global commodity and energy prices have increased by 18 per cent and 23 per cent respectively in the first eleven months of 2016 as per IMF price indices. The WPI inflation stood at 3.4 per cent in December 2016 and the average inflation was 2.9 per cent during April- December 2016.

The movement in CPI and WPI based inflation can be shown in the following diagram:




(Source: Economic Survey published by Ministry of Finance)

## Food Inflation

The inflation in India continues to be driven by narrow group of food items.

a. Pulses continued to be the major contributor of food inflation. The prices of pulses, in particular ***Tur and Urad***, remained high due to shortfall in domestic and global supply. Post July 2016, pulses prices except ***Gram Dal*** prices have been declining owing to near normal monsoon, increase in the Rabi pulses sowing and buffer build up by the Government.

b. Sugar prices also firmed up on account of lower production and hardening of price in the international market.

c. Vegetable prices, which flared during the lean summer season, have also declined sharply as supply picked up during the post monsoon and winter season.

The CPI food inflation (CFPI) has, as a result, dipped to a two-year low of 1.4 per cent in December 2016. The inflation for pulses & products dipped to negative 1.6 per cent in December 2016, and the vegetables inflation remained negative since September 2016.

Thus, the food inflation controlled in the later of the year contributed a lot in checking the overall inflation rate.

## CPI based Core Inflation

The CPI based core inflation exclusive of food and fuel group has remained sticky during this fiscal year and remained at an average of 5%.

Inflation for ***Pan, tobacco & intoxicants, Clothing & footwear, Housing and Education groups*** continued to be above 5 per cent and the major contributors of the core inflation.

Inflation for the ***'Transport & communication'*** group has been rising in recent months partly reflecting rise in global crude oil prices and its pass-through to domestic petrol and diesel prices.

Price of ***crude oil (Indian basket)*** has increased from $39.9 in April 2016 to $52.7 in December 2016.

Likewise, comparatively higher ***Gold*** price in the international market this financial year has contributed towards sticky core inflation.

All these products and product groups combined together maintained the inflation.

## 1.3 IIP GROWTH

The Index of Industrial Production (IIP) provides quick estimates of the performance of key industrial sectors. This indicator suggests that the performance of key industrial sector has shown below average performance with some sector performing well and some sector performing negative. Let's have a look at the below diagram comprising of the index and break-up of index according to the sector and use.

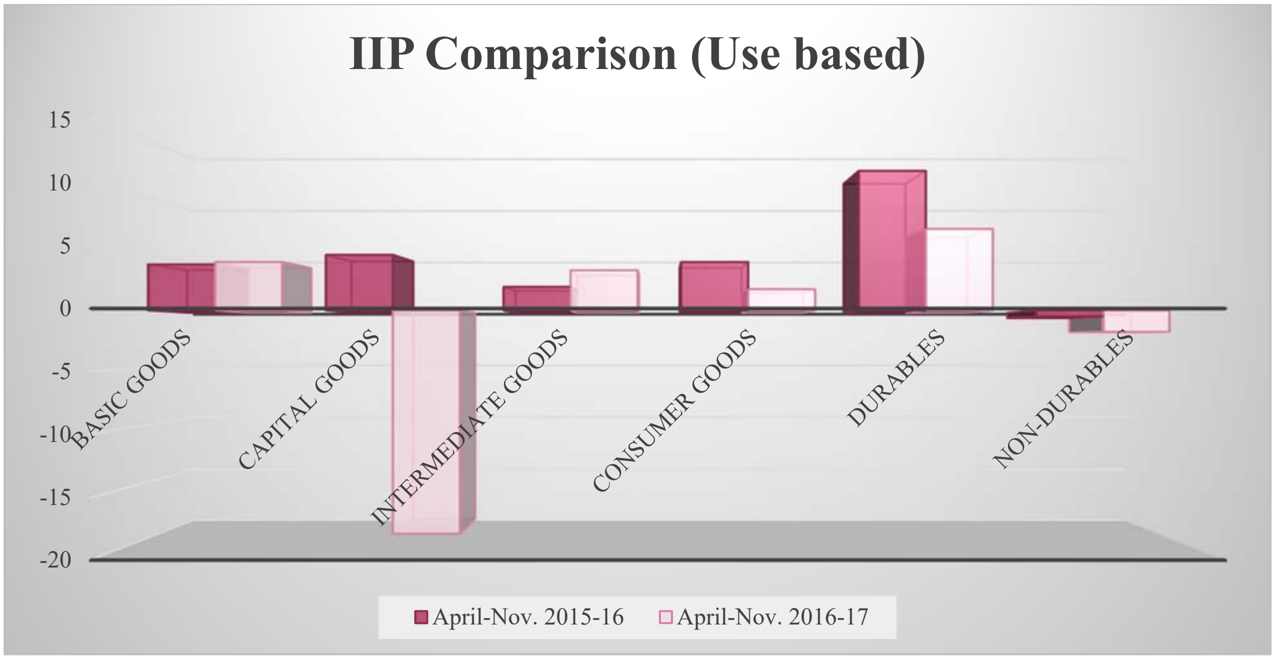
| | 2014-15 | 2015-16 | April-Nov. 2015-16 | April-Nov. 2016-17 |
|---|---|---|---|---|
| General index | 2.8 | 2.4 | 3.8 | 0.4 |
| **Sector based classification** | | | | |
| Mining | 1.5 | 2.2 | 2.1 | 0.3 |
| Manufacturing | 2.3 | 2 | 3.9 | -0.3 |
| Electricity | 8.4 | 5.7 | 4.6 | 5 |
| **Use-based classification** | | | | |
| Basic goods | 7 | 3.6 | 3.9 | 4.1 |
| Capital Goods | 6.4 | -2.9 | 4.7 | -18.9 |
| Intermediate goods | 1.7 | 2.5 | 2 | 3.4 |
| Consumer goods | -3.4 | 3 | 4.1 | 1.8 |
| Durables | -12.6 | 11.3 | 11.8 | 6.9 |
| Non-durables | 2.8 | -1.8 | -0.5 | -1.8 |

(Source: CSO)

As per CSO data, the industrial sector ***(which broadly comprises of mining, manufacturing and electricity)*** attained 0.4 per cent growth during April-November 2016-17 as compared to 3.8 per cent during the same period of 2015-16 due to the higher growth in generation of electricity. The mining and manufacturing sector showed very moderate.

In terms of use-based classification, basic goods, intermediate goods and consumer durable goods attained moderate growth. Conversely, the production of capital goods declined steeply and consumer nondurable goods sectors suffered a modest contraction during April-November 2016-17.

Let's have a look at the comparison on the performance of various sectors (***based on use***).




The eight core infrastructure supportive industries, coal, crude oil, natural gas, refinery products, fertilizers, steel, cement and electricity that have a total weight of nearly 38 per cent in the IIP, registered a cumulative growth of 4.9 per cent during April-November 2016-17 as compared to 2.5 per cent during April-November 2015-16. Month-wise performance of the eight core sectors shows that the production of refinery products, fertilizers, steel, electricity and cement have increased substantially, while that of crude oil and natural gas have fallen. Coal production attained lower growth during the same period.

Most indicators of infrastructure related activities showed expansion during first half of 2016-17. Thermal power with a growth of 6.9 per cent boosted overall power generation while hydro and nuclear power generation contracted marginally during April-September 2016.

**Exactitude annotations:**

The performance of overall IIP is below the average and at very low level as compared to the last year which had shown some good signs of recovery despite the variations in the performance of some of the major industries during April-November 2016.

These indicators show the negative trajectory for the performances and the government should take the necessary steps to boost the industrial output. The Government has provided various schemes to boost the industrial production like Make-in-India, Invest India, Start Up India and e-biz Mission Mode Project under the National e-Governance Plan. However, these schemes are not working at par the way it worked the last year.

# 2. SECTORAL PERFORMANCE

## 2.1. AGRICULTURE

The farmers, agriculture and rural population was the limelight of the Budget 2017. The industry experts have also termed the budget as "Budget of the Rural Economy". With the continuing thrust of Hon'ble Finance Minister on doubling the farmer's income by 2022, he has taken several policy decisions to boost the farming. With the proposed incentives, the sector is expected to grow at 4.1%.

We have broadly discussed the major proposals given by the Finance Budget 2017 on the Agricultural Sector in Section 1.1 (a).

The agriculture related companies listed on Stock Exchanges welcomed these budget proposals with cheer. These companies belong to the categories of Irrigation, Fertilizers, Seeds, rice, food processing etc. It is expected that these proposals will provide further impetus to boost the rural demand.

**Exactitude Annotations:**

The union budget has aimed to give a big push to agricultural reforms by extending the huge farm credit and offering the crop insurance much higher. National Bank for Agriculture and Rural Development (NABARD), an apex rural bank, has been entrusted with more schemes to facilitate the setup of new dairy sector and irrigation fund.

However, the government must ensure the seamless flow of the credit to the farmers to achieve the results the finance minister wished to spell out.

Also, as per the finance minister, a model law on contract farming will be circulated among states to help farmers get better value for their produce. Additionally, he reiterated the government's earlier goal of bringing in more regulated agriculture markets on the electronic National Agriculture Market (e-NAM) platform. These kind of schemes should be implemented at the earliest by the government, at the backdrop of impact of demonetization which has resulted into the crash of the prices of vegetables, fruits and pulses.

## 2.2. BANKING AND NBFCS

The Government has already undertaken substantive reforms in FDI policy in the last two years. More than 90% of the total FDI inflows are now through the automatic route. The government feels that it has now reached a stage where FIPB can be phased out. Therefore the government has decided to abolish the FIPB in 2017-18. A roadmap for the same will be announced in the next few months. In the meantime, further liberalization of FDI policy is under consideration and necessary announcements will be made in due course.

There are other reforms proposed by the finance minister in the financial sector which can be evidenced by the below points:

- In line with the 'Indradhanush' roadmap, the government has provided Rs. 10,000 crores for recapitalisation of Banks in 2017-18. Additional allocation will be provided, as may be required.
- An expert committee will be constituted to study and promote creation of an operational and legal framework to integrate spot market and derivatives market for commodities trading. e-NAM would be an integral part of such framework.
- Chit fund schemes have been exploiting the poor and uneducated people since long. There is an urgent need to protect the poor and gullible investors from another set of dubious schemes, operated by unscrupulous entities who exploit the regulatory gaps in the Multi State Cooperative Societies Act, 2002. This Act will be amended in consultation with various stakeholders.
- The bill relating to resolution of financial firms will be introduced. Together with the Insolvency and Bankruptcy Code, a resolution mechanism for financial firms will ensure comprehensiveness of the resolution system in our country.
- A Computer Emergency Response Team for our Financial Sector (CERT-Fin) will be established. This entity will work in close coordination with all financial sector regulators and other stakeholders.
- The Government will put in place a revised mechanism and procedure to ensure time bound listing of identified CPSEs on stock exchanges. The disinvestment policy announced in the last budget will continue. The shares of Railway PSEs like IRCTC, IRFC and IRCON will be listed in stock exchanges.
- The government has proposed to create an integrated public sector 'Oil Major' which will be able to match the performance of international and domestic private sector oil and gas companies.
- The lending target under the *PRADHAN MANTRI MUDRA YOJNA* has been proposed to be doubled from 2015-16 target and is set at Rs. 2.44 lakh crore.

Banking stocks rallied immediately after the finance minister ended his budget speech.

**Exactitude Annotations:**
Union Budget 2017 has offered more than expected by the industry. Huge Infrastructure spending, big push to affordable housing and tax concession on the provision for bad loans were the key proposals which will benefit the entire banking system.

The recent demonetization scheme has offered significant liquidity to the banking system and significant potential for rise in credit line.

The budget has set aside only Rs. 10,000 crore for bank recapitalization, lower than the Rs. 25,000 crore in the previous budget. As per the best estimates available, PSU Banks would need additional capital of up to Rs 240,000 crore by 2018 to meet the Basel III capital adequacy norms, put in place to guard against a repeat of the situation following the 2008 US financial crisis. The 25,000 crores of funds are far below the actual requirement of funds. However, it will still provide some relief to the banks.

The recovery of banking sector is now dependent on the Banks Board Bureau (BBB) that will recommend appointment of directors in PSBs and advice on ways of raising funds and dealing with stressed assets.

## 2.3. EDUCATION

Union budget 2017 has proposed several revolutionary measures to boost the quality of education and extend the reach of education to larger sections of the population. Some of the key measures are as below:

- A system of measuring annual learning outcomes in our schools. Emphasis will be given on science education and flexibility in curriculum to promote creativity through local innovative content.
- An Innovation Fund for Secondary Education will be created to encourage local innovation for ensuring universal access, gender parity and quality improvement. This will include ICT-enabled learning transformation. The focus will be on 3,479 educationally backward blocks.
- The government plans to reform the UGC. Good quality institutions would be enabled to have greater administrative and academic autonomy. Colleges will be identified based on accreditation and ranking, and given autonomous status. A revised framework will be put in place for outcome-based accreditation and credit-based programmes.
- By leveraging information technology, the government will launch SWAYAM platform with at least 350 online courses. This would enable students to virtually attend the courses taught by the best faculty; access high-quality reading resources; participate in discussion forums; take tests and earn academic grades. Access to SWAYAM would be widened by linkage with DTH channels, dedicated to education.
- A National Testing Agency will be established as an autonomous and self-sustained premier testing organization to conduct all entrance examinations for higher education institutions. This would free CBSE, AICTE and other premier institutions from these administrative responsibilities so that they can focus more on academics.

**Exactitude Annotations:**
The union budget 2017 has tried to bring some major reforms to the education system. However, these reforms are for the higher education only and does not find place for primary education.

The government should have brought more inclusive policies to boost the primary education in a country like India where major chunk of population are based in rural which lacks the better school and better teachers.

In the view of above, the budget will benefit only a select few children in higher education, depriving millions of children from their universal rights to education.

## 2.4. DIGITAL ECONOMY

Promotion of a digital economy is an integral part of Government's strategy to clean the system and weed out corruption and black money. It has a transformative impact in terms of greater formalization of the economy and mainstreaming of financial savings into the banking system. This, in turn, is expected to energies private investment in the country through lower cost of credit. India is now on the cusp of a massive digital revolution. A shift to digital payments has huge benefits for the common man.

- The BHIM app has been launched. It will unleash the power of mobile phones for digital payments and financial inclusion. The Government will launch two new schemes to promote the usage of BHIM; these are, Referral Bonus Scheme for individuals and a Cashback Scheme for merchants.
- Aadhar Pay, a merchant version of Aadhar Enabled Payment System, will be launched shortly. Banks have targeted to introduce additional 10 lakh new PoS terminals by March 2017. They will be encouraged to introduce 20 lakh Aadhar based PoS by September 2017.

Increased digital transactions will enable small and micro enterprises to access formal credit. Government will encourage SIDBI to refinance credit institutions which provide unsecured loans, at reasonable interest rates, to borrowers based on their transaction history.

**Exactitude Annotations:**

In the current budget, the underlying theme of the government has been the digitization of economy, bringing down the cash to GDP ratio and greater financial inclusion. The government seeks to create a new 'normal' wherein the GDP would be bigger, cleaner and real. This exercise is part of our Government's resolve to eliminate corruption and black money. The focus on the digitization of economy and financial inclusion of the marginalized is also commendable.

## 2.5. INFRASTRUCTURE


The infrastructure is one of the top priority sector under the union budget. A huge push in the infrastructure spending will boost the rural demand and create the employment opportunities for larger sections of the society. Even the international community has praised the huge allocation towards infra spends which will spur the rural demand and consumption in the medium term.

We have discussed many budget proposals relating to Infra in ***Section 1.1 (c)***. Some of the other proposals are as below:

- In the road sector, the government has stepped up the Budget allocation for highways from Rs. 57,976 crore in BE 2016-17 to Rs. 64,900 crores in 2017-18. 2,000 kms of coastal connectivity roads have been identified for construction and development. This will facilitate better connectivity with ports and remote villages. The total length of roads, including those under PMGSY, built from 2014-15 till the current year is about 140,000 kms which is significantly higher than previous three years.
- A specific programme for development of multi-modal logistics parks, together with multi modal transport facilities, will be drawn up and implemented.
- A new and restructured Central scheme, namely, Trade Infrastructure for Export Scheme (TIES) will be launched in 2017-18 with an aim to make our export infrastructure of international standards.

**Exactitude Annotations:**
A total allocation for infrastructure development amounting to Rs. 396,135 crores is significant spend and may spur huge growth opportunities employment and rural consumption. For transportation sector as a whole, including rail, roads, shipping, the Government has provided Rs. 241,387 crores in 2017-18. This magnitude of investment will spur a huge amount of economic activity across the country and create more job opportunities.

The presentation of rail budget as part of the general budget is a welcome move. It brings more accountability and is in a position to synergize the investment in railways, road, waterways and civil aviation.

## 3. TAX PROPOSALS

### 3.1. DIRECT TAX PROPOSALS

**A. Rates of Income Tax**

- Tax rate for the slab Rs. 2.5 lakh to Rs. 5 lakh has been reduced from 10% to 5%.
- Existing rebate of Rs 5,000 for taxpayers having taxable income of up to Rs 5 lakh has been reduced to Rs 2,500 and only for taxpayers having taxable income of up to Rs 3.5 lakh.
- Surcharge of 10% has been introduced for Taxpayer having taxable income of Rs. 50 lakh to 1 crore.

**B. Additional Resource Mobilization**

- With a view to ensure horizontal equity among all categories of tax payers deriving income from dividend, it is proposed to amend section 115BBDA so as to provide that the provisions of said section shall be applicable to all resident assessees except domestic company and certain funds, trusts, institutions, etc.

- In order to widen the scope of tax deduction at source, it is proposed to insert a new section 194-IB in the Act to provide that Individuals or a HUF (other than those covered under 44AB of the Act), responsible for paying to a resident any income by way of rent exceeding fifty thousand rupees for a month or part of month during the previous year, shall deduct an amount equal to five percent of such income as income-tax thereon.

**C. Measures for Promoting Affordable Housing and Real Estate Sector**

- With a view to promote the real-estate sector and to make it more attractive for investment, it is proposed to amend section 2 (42A) of the Act so as to reduce the period of holding from the existing 36 months to 24 months in case of immovable property, being land or building or both, to qualify as long term capital asset.
- In order to promote the development of affordable housing sector, it is proposed to amend section 80-IBA so as to provide the following relaxations:—
  a. The size of residential unit shall be measured by taking into account the "carpet area" as defined in Real Estate (Regulation and Development) Act, 2016 and not the "built-up area".
  b. The restriction of 30 square meters on the size of residential units shall not apply to the place located within a distance of 25 kms from the municipal limits of the Chennai, Delhi, Kolkata or Mumbai.
  c. The condition of period of completion of project for claiming deduction under this section shall be increased from existing three years to five years.
- Certain Tax incentive has been introduced for the development of capital of Andhra Pradesh
- Special provisions has been inserted for computation of capital gains in case of joint development agreement:
- **Shifting of Base year:** Section 55 of the Act has been amended so as to provide that the cost of acquisition of an asset acquired before April 1, 2001 shall be allowed to be taken as fair market value as on April 1, 2001 and the cost of improvement shall include only those capital expenses which are incurred after April 1, 2001
- Section 54EC has been amended so as to provide that investment in any bond redeemable after three years which has been notified by the Central Government in this behalf shall also be eligible for exemption..
- Where the house property consisting of any building and land appurtenant thereto is held as stock-in-trade and the property or any part of the property is not let during the whole or any part of the previous year, the annual value of such property or part of the property, for the period upto one year from the end of the financial year in which the certificate of completion of construction of the property is obtained from the competent authority, shall be taken to be nil.

**D. Measures for Stimulating Growth**

- Extension of eligible period of concessional tax rate on interest in case of External Commercial Borrowing and Extension of benefit to Rupee Denominated Bonds.
- Eligible period of concessional tax rate under section 194LD has been extended

- **Carry forward and set off of loss in case of start-up companies:** In order to facilitate ease of doing business and to promote start up India, it is proposed to amend section 79 of the Act to provide that where a change in shareholding has taken place in a previous year in the case of a private company, and being an eligible start-up, loss shall be carried forward and set off against the income of the previous year with certain conditions.
- The period for claiming deduction by start-ups has been extended from five years to seven years.
- Tax credit for Minimum Alternate Tax and Alternate Minimum Tax shall not be allowed to be carried forward to subsequent year to the extent such credit relates to the difference between the amount of foreign tax credit (FTC) allowed against MAT/ AMT and FTC allowable against the tax computed under regular provisions of Act other than the provisions relating to MAT/AMT.
- Scope of section 43D to Co-operative Banks has been extended
- Deduction limit in respect of provision for bad and doubtful debts has been extended to 8.5% of the total income.

**E. Promoting Digital Economy**

- Section 80G has been amended so as to provide that no deduction shall be allowed under the section 80G in respect of donation of any sum exceeding two thousand rupees unless such sum is paid by any mode other than cash.
- where an assessee incurs any expenditure for acquisition of any asset in respect which 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 or use of electronic clearing system through a bank account, exceeds ten thousand rupees, such expenditure shall be ignored for the purposes of determination of actual cost of such asset.
- In order to dis-incentivize cash transactions, it is proposed to amend the provision of section 40A of the Act to provide the following:
    a. To reduce the existing threshold of cash payment to a person from Rs. 20,000 to Rs. 10,000;
    b. Deeming a payment as profits and gains of business of profession if the expenditure is incurred in a particular year but the cash payment is made in any subsequent year of a sum exceeding ten thousand rupees to a person in a single day; and
    c. Further expand the specified mode of payment under respective sub-section of section 40A from an account payee cheque drawn on a bank or account payee bank draft to by an account payee cheque drawn on a bank or account payee bank draft or use of electronic clearing system through a bank account.
- Existing rate of deemed total income of eight per cent has been reduced to six per cent in respect of the amount of such total turnover or gross receipts received by an account payee cheque or account payee bank draft or use of electronic clearing system through a bank account.
- Section 269ST has been inserted in the Act to provide that no person shall receive an amount of three lakh rupees or more,—
    i. in aggregate from a person in a day;
    ii. in respect of a single transaction; or
    iii. in respect of transactions relating to one event or occasion from a person,

otherwise than by an account payee cheque or account payee bank draft or use of electronic clearing system through a bank account.

**F. Transparency in Electoral Funding**

In order to discourage the cash transactions and to bring transparency in the source of funding to political parties, it is proposed to amend the provisions of section 13A to provide for additional conditions for availing the benefit of the said section which are as under:

a. No donations of Rs. 2,000 or more is received otherwise than by an account payee cheque drawn on a bank or an account payee bank draft or use of electronic clearing system through a bank account or through electoral bonds,

b. Political party furnishes a return of income for the previous year in accordance with the provisions of sub-section (4B) of section 139 on or before the due date under section 139.

**G. Ease of doing Business**

- Section 9 has been amended so as to clarify that the Explanation 5 shall not apply to any asset or capital asset mentioned therein being investment held by non-resident, directly or indirectly, in a Foreign Institutional Investor, as these entities are regulated and broad based. The proposed amendment is clarificatory in nature.
- Conditions of special taxation regime for off shore funds under section 9A has been modified.
- Income of Foreign Company from sale of leftover stock of crude oil from strategic reserves at the expiry of agreement or arrangement has been exempted.
- Enabling of Filing of Form 15G/15H (self-declaration) for commission payments specified under section 194D
- The threshold limit of income and sales turnover for maintenance of books of accounts in case of Individuals and Hindu undivided family under Section 44AA has been increased from Rs. 120,000 to Rs. 250,000 and from Rs. 1,000,000 to Rs. 2,500,000.
- Persons who declares profit for the previous year in accordance with the provisions of sub-section (1) of section 44AD and his total sales, total turnover or gross receipts, as the case may be, in business does not exceed two crore rupees in such previous year, are excluded from requirement of audit of books of accounts under section 44AB.
- Section 194J has been amended to reduce the rate of deduction of tax at source to two per cent from ten per cent, in case of payments received or credited to a payee, being a person engaged only in the business of operation of call center.
- Expenditure in respect of which payment has been made by the assessee to a person referred to in under section 40A(2)(b) are to be excluded from the scope of section 92BA of the Act
- Where the total income of the assessee includes any income from transfer of carbon credit, such income shall be taxable at the concessional rate of ten per cent (plus applicable surcharge and cess) on the gross amount of such income. No expenditure or allowance in respect of such income shall be allowed under the Act.
- The assessee who declares profits and gains in accordance with presumptive taxation regime provided under section 44ADA shall also be liable to pay advance tax in one instalment on or before the 15th of March.

- Extension of capital gain exemption to Rupee Denominated Bonds.
- For the assessment year 2018-19, the time limit for making an assessment order under sections 143 or 144 shall be reduced from existing twenty-one months to eighteen months from the end of the assessment year, and for the assessment year 2019-20 and onwards, the said time limit shall be twelve months from the end of the assessment year in which the income was first assessable. Further such rationalization has been proposed in case of various other assessment cases.

**H. Anti-abuse Measures**

- Exemption under Section 10(38) for income arising on transfer of equity share acquired or on after 1st day of October, 2004 shall be available only if the acquisition of share is chargeable to Securities Transactions Tax under Chapter VII of the Finance (No 2) Act, 2004. However, to protect the exemption for genuine cases where the Securities Transactions Tax could not have been paid like acquisition of share in IPO, FPO, bonus or right issue by a listed company acquisition by non-resident in accordance with FDI policy of the Government etc., it is also proposed to notify transfers for which the condition of chargeability to Securities Transactions Tax on acquisition shall not be applicable.
- A new section 50CA has been inserted to provide that where consideration for transfer of share of a company (other than quoted share) is less than the Fair Market Value (FMV) of such share determined in accordance with the prescribed manner, the FMV shall be deemed to be the full value of consideration for the purposes of computing income under the head "Capital gains".
- Scope of Section 56 has been widened to tax receipt of money exceeding Rs. 50,000 which is without inadequate consideration.
- In order to ensure that return is filed within due date, it is proposed to insert a new section 234F in the Act to provide that a fee for delay in furnishing of return shall be levied for assessment year 2018-19 and onwards in a case where the return is not filed within the due dates specified for filing of return under sub-section (1) of section 139. The proposed fee structure is as follows:—
  a. a fee of five thousand rupees shall be payable, if the return is furnished after the due date but on or before the 31st day of December of the assessment year;
  b. a fee of ten thousand rupees shall be payable in any other case.

  However, in a case where the total income does not exceed five lakh rupees, it is proposed that the fee amount shall not exceed one thousand rupees.
- In order to ensure that the person furnishing report or certificate undertakes due diligence before making such certification, it is proposed to insert a new section 271J so as to provide that if an accountant or a merchant banker or a registered valuer, furnishes incorrect information in a report or certificate under any provisions of the Act or the rules made thereunder, the Assessing Officer or the Commissioner (Appeals) may direct him to pay a sum of ten thousand rupees for each such report or certificate by way of penalty.

**I. Rationalization Measures**

- Section 115JB is amended so as to provide the framework for computation of book profit for Ind AS compliant companies in the year of adoption and thereafter. The main features of this proposed framework has been guided in the budget.

- Various rationalization of provisions have been proposed in view of applicability of Ind AS on various entities.
- Section 71 of the Act relates to set-off of loss from one head against income from another. In line with the international best practices it is proposed to insert sub-section (3A) in the said section to provide that set-off of loss under the head "Income from house property" against any other head of income shall be restricted to two lakh rupees for any assessment year. However, the unabsorbed loss shall be allowed to be carried forward for set-off in subsequent years in accordance with the existing provisions of the Act.
- Explanation to sub-section (1) and to sub-section (1A) of section 132 and to sub-section (1) of section 132A has been inserted to declare that the 'reason to believe' or 'reason to suspect', as the case may be, shall not be disclosed to any person or any authority or the Appellate Tribunal.
- It is proposed to widen the scope of the Section 133A by amending sub-section (1) to include any place, at which an activity for charitable purpose is carried on.

**J. Benefit for NPS subscribers**

In order to provide further relief to an employee subscriber of NPS, it is proposed to amend the section 10 so as to provide exemption to partial withdrawal not exceeding 25% of the contribution made by an employee in accordance with the terms and conditions specified under Pension Fund Regulatory and Development Authority Act, 2013 and regulations made there under.

## 3.2. INDIRECT TAX PROPOSALS

### 3.2.1 General amendments applicable for Service Tax, Excise Duty and Custom Duty Acts

- Application fee for seeking advance ruling from is increased from Rs. 2,500 to Rs. 10,000.
- Existing time limit of pronouncement of advance ruling by the authority is extended from 90 days to 6 months.
- Definition of "Authority" substituted to mean the Authority for Advance Ruling as constituted under section 245-O of the Income-tax Act, 1961.
- Vacancies (in the Authority for advance ruling) not to invalidate proceedings is being omitted.

### 3.2.2 Service Tax

#### 3.2.2.1 Amendment effective with effect from February 2, 2017

- Amendment in Mega Exemption Notification No. 25/2012 ST dated June 20, 2012: Services by the Army, Naval and Air Force Group Insurance Funds by way of life insurance to its exempted from service tax
- Under the Regional Connectivity Scheme (RCS), exemption from service tax is provided in respect of the amount of viability gap funding (VGF) payable to the selected airline operator for selected services for a period of 1 year from the date of commencement.

- Certain Services provided by Indian Institutes of Management (IIMs) is exempted.

#### 3.2.2.2 Amendment effective with effect from the date of enactment of Finance Bill 2017

- Services by way of carrying out any process amounting to manufacture or production of goods excluding alcoholic liquor for human consumption" is proposed to be omitted from the negative list.
- Research and Development (R & D) Cess Act, 1986 to be repealed. Consequently, exemption from service tax equivalent to the amount of R & D cess payable on the import of technology under the said Act would not be available with respect to a taxable service involving import of technology.
- Service portion in execution of works contract involving transfer of goods and land or undivided share of land, as the case may be, shall not include value of property in such land or undivided share of land.
- Transferring the pending applications before the Authority for Advance Rulings (Central Excise, Customs and Service Tax) to the Authority constituted under section 245-O of the Income-tax Act from the stage at which such proceedings stood has been provided.

#### 3.2.2.3 Retrospective Exemptions

- One time upfront amount payable for grant of long-term lease of industrial plots by State Government industrial development corporations/ undertakings to industrial units.

### 3.2.3 Excise Duty

#### 3.2.3.1 Amendment effective with effect from February 2, 2017

- A time limit of three months has been provided [further extendable by 6 months] for granting remission of duty from the receipt of application in case the goods is lost.
- Time limit of three months [further extendable by 6 months] has been provided for approval of requests regarding transfer of CENVAT credit on shifting, sale, merger, etc. of the factory.
- Banks and financial institutions engaged in providing services by way of extending deposits, loans or advances has been excluded from its ambit of Cenvat Credit Rules.

### 3.2.4 Custom Duty

- Section 17 of the Customs Act, 1962 is proposed to be amended to rationalize the requirement of documents for verification of self-assessment.
- Section 27(2) of the Customs Act, 1962 to be amended so as to keep outside the ambit of unjust enrichment, the refund of duty paid in excess by the importer before an order permitting clearance of goods for home consumption is made, where-
  - such excess payment is evident from the bill of entry in the case of self-assessed bill of entry or
  - the duty actually payable is reflected in the reassessed bill of entry in the case of reassessment.
- Manner of payment of duty and interest thereon has been amended in the case of self-assessed bills of entry.

| Head of taxes | Actual 2015-2016 | Budget 2016-2017 | Revised 2016-2017 | Budget 2017-2018 |
|---|---|---|---|---|
| Customs Duties- | | | | |
| Import Duty | 2,03,074.88 | 2,23,204.00 | 2,09,950.00 | 2,38,200.00 |
| Exporty Duty | 7,263.12 | 6,796.00 | 7,050.00 | 6,800.00 |
| Union Excise Duties | 2,88,072.89 | 3,18,669.50 | 3,87,368.58 | 4,06,900.00 |
| Service Tax | 2,11,414.25 | 2,31,000.00 | 2,47,500.00 | 2,75,000.00 |
| Taxes on union territories | 3,878.26 | 4,121.08 | 4,277.16 | 4,679.46 |
| **Total Indirect Tax Revenue** | **7,13,703.40** | **7,83,790.58** | **8,56,145.74** | **9,31,579.46** |

## ANNEXURE I: CHANGES IN INDIRECT TAXES

| Sl.No. | Changes | Existing | Proposed |
|---|---|---|---|
| **I** | **Changes in Tax Base of Service Tax** | | |
| **1** | Rule 2 A of Service Tax (Determination of Value) Rules, 2006 is being amended with effect from 01.07.2010 so as to make it clear that value of service portion in execution of works contract involving transfer of goods and land or undivided share of land, as the case may be, shall not include value of property in such land or undivided share of land. | 4,.2% | 4,.2% |
| **2** | The Negative List entry in respect of "services by way of carrying out any process amounting to manufacture or production of goods excluding alcoholic liquor for human consumption", is proposed to be omitted. However, the same entry is being placed in exemption notification No. 25/2012-Service Tax dated 20th June, 2012. Consequently, the definition of '*process amounting to manufacture*' [clause (40) section 65B] is also proposed to be omitted from the Finance Act, 1994 and is being incorporated in the general exemption notification | Nil | Nil |
| **3** | Service tax exemption to taxable services provided or agreed to be provided by the Army, Naval and Air Force Group Insurance Funds by way of life insurance to members of the Army, Navy and Air Force under the Group Insurance Schemes of the Central Government, is being made effective from 10th day of September, 2004, the date when services of life insurance became taxable | 14% | Nil |

| Sl.No. | Changes | Existing | Proposed |
|---|---|---|---|
| **4** | Benefit of the exemption notification No. 41/2016-ST dated 22.09.2016 is being extended with effect from 1.6.2007, the date when the services of renting of immovable property became taxable. Notification No.41/2016-ST dated 22.09.2016, exempts one time upfront amount (called as premium, salami, cost, price, development charges or by whatever name) payable for grant of long-term lease of industrial plots (30 years or more) by State Government | 14% | Nil |
| **5** | Services provided or agreed to be provided by the Army, Naval and Air Force Group Insurance Funds by way of life insurance to members of the Army, Navy and Air Force under the Group Insurance Schemes of the Central Government is being exempted from service tax from 2nd February, 2017. | 14% | Nil |
| **6** | The exemption vide S. No. 9B of notification No. 25/2012-ST dated 20.06.2012, is being amended so as to omit the word “residential” appearing in the notification. The exemption remains the same in all other respects. S. No. 9B of notification No. 25/2012-ST exempts services provided by Indian Institutes of Management (IIMs) by way of two year full time residential Post Graduate Programmes (PGP) in Management for the Post Graduate Diploma in Management (PGDM), to which admissions are made on the basis of the Common Admission Test (CAT), conducted by IIM. | 14% | Nil |
| **7** | Under the Regional Connectivity Scheme (RCS), exemption from service tax is being provided in respect of the amount of viability gap funding (VGF) payable to the selected airline operator for the services of transport of passengers, with or without accompanied belongings, by air, embarking from or terminating in a Regional Connectivity Scheme (RCS) airport, for a period of one year from the date of commencement of operations of the Regional Connectivity Scheme (RCS) airport as notified by Ministry of Civil Aviation. | 14% | Nil |
| **II** | **Amendment Involving change in the rate of Additional Excise Duty** | **Existing** | **Proposed** |
| **1** | **Tobacco and Tobacco Products** | | |
| | A. Non-filter Cigarettes of length not exceeding 65mm | Rs. 215 per thousand | Rs. 311 per thousand |
| | B. Non-filter Cigarettes of length exceeding 65mm but not exceeding 70mm | Rs. 370 per thousand | Rs. 541 per thousand |
| | C. Filter Cigarettes of length not exceeding 65mm | Rs. 215 per thousand | Rs. 311 per thousand |
| | D. Filter Cigarettes of length exceeding 65mm but not exceeding 70mm | Rs. 260 per thousand | Rs. 386 per thousand |
| | E. Filter Cigarettes of length exceeding 70mm but not exceeding 75mm | Rs. 370 per thousand | Rs. 541 per thousand |

| Sl.No. | Changes | Existing | Proposed |
|---|---|---|---|
| | F. Other Cigarettes | Rs. 560 per thousand | Rs. 811 per thousand |
| | G. Chewing tobacco (including filter khaini) | 10% | 12% |
| | H. Jarda scented tobacco | 10% | 12% |
| | I. Pan Masala containing Tobacco (Gutkha) | 10% | 12% |
| | J. Pan Masala | 6% | 9% |
| | K. Unmanufactured Tobacco | 4.2% | 8.3% |
| **III** | **Amendment Involving change in the rate of Basic Excise Duty** | | |
| **1** | **Tobacco and Tobacco Products** | | |
| | A. Cigar and cheroots | 12.5% or Rs.3755 per thousand, whichever is higher | 12.5% or Rs.4006 per thousand, whichever is higher |
| | B. Cigarillos | 12.5% or Rs.3755 per thousand, whichever is higher | 12.5% or Rs.4006 per thousand, whichever is higher |
| | C. Cigarettes of tobacco substitutes | Rs.3755 per thousand | Rs.4006 per thousand |
| | D. Cigarillos of tobacco substitutes | 12.5% or Rs.3755 per thousand, whichever is higher | 12.5% or Rs.4006 per thousand, whichever is higher |
| | E. Others of tobacco substitutes | 12.5% or Rs.3755 per thousand, whichever is higher | 12.5% or Rs.4006 per thousand, whichever is higher |
| | F. Paper rolled biris – handmade | Rs.21 per thousand | Rs.28 per thousand |
| | G. Paper rolled biris – machine made | Rs.21 per thousand | Rs.78 per thousand |
| **2** | **Renewable Energy** | | |

| Sl.No. | Changes | Existing | Proposed |
|---|---|---|---|
| | Solar tempered glass for use in solar photovoltaic cells/modules, solar power generating equipment or systems, flat plate solar collector, solar photovoltaic module and panel for water pumping and other applications, subject to actual user condition | Nil | 6% |
| | Parts/raw materials for manufacture of solar tempered glass for use in solar photovoltaic cells/modules, solar power generating equipment or systems, flat plate solar collector, solar photovoltaic module and panel for water pumping and other applications, subject to actual user condition | 12.5% | 6% |
| | Resin and catalyst for manufacture of cast components for Wind Operated Energy Generators [WOEG], subject to actual user condition | 12.5% | Nil |
| | All items of machinery required for fuel cell based power generating systems to be set up in the country or for demonstration purposes | 12.5% | 6% |
| | All items of machinery required for balance of systems operating on biogas/ bio-methane/ by-product hydrogen | 12.5% | 6% |
| 3 | **Miscellaneous** | | |
| | Membrane Sheet and Tricot / Spacer for use in manufacture of RO membrane element for household type filters, subject to actual user condition | 12.5% | 6% |
| | All parts for manufacture of LED lights or fixtures, including LED<br>lamps, subject to actual user condition | Applicable Duty | 6% |
| | Miniaturized POS card reader for m-POS (not including mobile phones, or tablet computers), micro ATM as per standards version 1.5.1, Finger Print Reader / Scanner or Iris Scanner | Applicable Duty | Nil |
| | Parts and components for manufacture of miniaturized POS card<br>reader for m-POS (not including mobile phones, or tablet computers), micro ATM as per standards version 1.5.1, Finger Print Reader / Scanner or Iris Scanner, subject to actual user condition | Applicable Duty | Nil |
| | a. Waste and scrap of precious metals or metals clad with precious metals arising in course of manufacture of goods falling in Chapter 71<br>b. Strips, wires, sheets, plates and foils of silver<br>c. Articles of silver jewellery, other than those studded with diamond, ruby, emerald or sapphire<br>d. Silver coin of purity 99.9% and above, bearing a brand name when manufactured from silver on | Nil | Nil, subject to the condition that no credit of duty paid on inputs or input services or capital |

| Sl.No. | Changes | Existing | Proposed |
|---|---|---|---|
| | | | goods has been availed by manufacture of such goods |
| **IV** | **AMENDMENTS IN THE CENTRAL EXCISE RULES, 2002 AND THE CENVAT CREDIT RULES, 2004** | | |
| | Sub-rule (2) is being inserted in rule 21 of Central Excise Rules, 2002 so as to provide for a time limit of three months [further extendable by 6 months] for granting remission of duty under the said rule 21 read with section 5 of the Central Excise Act, 1944. | | |
| | Sub-rule (4) is being inserted in rule 10 of CENVAT Credit Rules, 2004 so as to provide for a time limit of three months [further extendable by 6 months] for approval of requests regarding transfer of CENVAT credit on shifting, sale, merger, etc. of the factory. | | |
| **V** | **Retrospective Amendments in Excise** | | |
| | To retrospectively [that is with effect from 01.01.2017] specify a tariff rate of excise duty of 12.5% [as against present tariff rate of 27%] on motor vehicles for transport of more than 13 persons falling under tariff items 8702 90 21 to 8702 90 29 of the First Schedule to the Central Excise Tariff Act, 1985. | 27% | 12.5% |
| **VI** | **PROPOSALS INVOLVING CHANGES IN BCD, CVD, SAD AND EXPORT DUTY RATES** | **Existing** | **Proposed** |
| **1** | **Ores and Concentrates** | | |
| | Other aluminium ores, including laterite | Export Duty - Nil | Export Duty – 15% |
| **2** | **Mineral fuels and Mineral oils** | | |
| | Liquefied Natural Gas | BCD – 5% | BCD – 2.5% |
| **3** | **Chemicals & Petrochemicals** | | |
| | o-Xylene | BCD – 2.5% | BCD – Nil |
| | Medium Quality Terephthalic Acid (MTA) & Qualified Terephthalic Acid (QTA) | BCD – 7.5% | BCD – 5% |
| | 2-Ethyl Anthraquinone [29146990] for use in manufacture of hydrogen peroxide, subject to actual user condition | BCD – 7.5% | BCD – 2.5% |
| | Clay 2 Powder (Alumax) for use in ceramic substrate for catalytic convertors, subject to actual user condition | BCD – 7.5% | BCD – 5% |
| | Vinyl Polyethylene Glycol (VPEG) for use in manufacture of Poly Carboxylate Ether, subject to actual user condition | BCD – 10% | BCD – 7.5% |
| **4** | **Textiles** | | |

| Sl.No. | Changes | Existing | Proposed |
|---|---|---|---|
| | Nylon mono filament yarn for use in monofilament long line system for Tuna fishing, subject to certain specified conditions | BCD – 7.5% | BCD – 5% |
| 5 | **Finished Leather, Footwear and Other Leather Products** | | |
| | Vegetable tanning extracts, namely Wattle extract and Myrobalan fruit extract | BCD – 7.5% | BCD – 2.5% |
| | Limit of duty free import of eligible items for manufacture of leather footwear or synthetic footwear or other leather products for use in the manufacture of said goods for export | 3% of FOB value of said goods exported during the preceding financial year | 5% of FOB value of said goods exported during the preceding financial year |
| 6 | **Metals** | | |
| | Co-polymer coated MS tapes / stainless steel tapes for manufacture of telecommunication grade optical fibres or optical fibre cables, subject to actual user condition | BCD – Nil | BCD – 10% |
| | Nickel | BCD – 2.5% | BCD – Nil |
| | MgO coated cold rolled steel coils [7225 19 90] for use in manufacture of CRGO steel, subject to actual user condition | BCD – 10% | BCD – 5% |
| | Hot Rolled Coils [7208], when imported for use in manufacture of welded tubes and pipes falling under heading 7305 or 7306, subject to actual user condition | BCD – 12.5% | BCD – 10% |
| 7 | **Capital Goods** | | |
| | Ball screws, linear motion guides and CNC systems for use in manufacture of all CNC machine tools, subject to actual user condition | Ball screws and liner motion guides BCD – 7.5% CNC systems BCD – 10% | BCD – 2.5% |
| 8 | **Electronics / Hardware** | | |
| | Populated Printed Circuit Boards (PCBs) for the manufacture of mobile phones, subject to actual user condition | SAD – Nil | SAD – 2% |
| 9 | **Renewable Energy** | | |
| | Solar tempered glass for use in the manufacture of solar cells/panels/modules subject to actual user condition | BCD – 5% | BCD – Nil |

| Sl.No. | Changes | Existing | Proposed |
|---|---|---|---|
| | Parts/raw materials for manufacture of solar tempered glass for use in solar photovoltaic cells/modules, solar power generating equipment or systems, flat plate solar collector, solar photovoltaic module and panel for water pumping and other applications, subject to actual user condition | CVD – 12.5% | CVD – 6% |
| | Resin and catalyst for manufacture of cast components for Wind Operated Energy Generators [WOEG], subject to actual user condition | BCD – 7.5%<br>CVD – 12.5% | BCD – 5%<br>CVD – Nil<br>SAD – Nil |
| | All items of machinery required for fuel cell based power generating systems to be set up in the country or for demonstration purposes, subject to certain specified conditions | BCD – 10% / 7.5%<br>CVD – 12.5% | BCD – 5%<br>CVD – 6% |
| | All items of machinery required for balance of systems operating on biogas/ bio-methane/ by-product hydrogen, subject to certain specified conditions | BCD – 10% / 7.5%<br>CVD – 12.5% | BCD – 5%<br>CVD – 6% |
| 10 | **Commodity** | | |
| | Cashew nut, roasted, salted or roasted and salted | BCD – 30% | BCD – 45% |
| | RO membrane element for household type filters | BCD – 7.5% | BCD – 10% |
| 11 | **Miscellaneous** | | |
| | Membrane Sheet and Tricot / Spacer for use in manufacture of RO membrane element for household type filters, subject to actual user condition | CVD – 12.5% | CVD – 6% |
| | All parts for manufacture of LED lights or fixtures, including LED lamps, subject to actual user condition | Applicable BCD, CVD | BCD – 5%<br>CVD – 6% |
| | All inputs for use in the manufacture of LED Driver and MCPCB for LED lights or fixtures, including LED lamps, subject to actual user condition | Applicable BCD | 5% |
| | De-minimis customs duties exemption limit for goods imported through parcels, packets and letters | Duty payable not exceeding Rs.100 per consignment | CIF value not exceeding Rs.1000 per consignment |
| | Miniaturized POS card reader for m-POS (not including mobile phones, or tablet computers), micro ATM as per standards version 1.5.1, Finger Print Reader / Scanner or Iris Scanner | Applicable BCD, CVD SAD | BCD – Nil<br>CVD – Nil<br>SAD – Nil |

| Sl.No. | Changes | Existing | Proposed |
|---|---|---|---|
| | Parts and components for manufacture of miniaturized POS card reader for m-POS (not including mobile phones, or tablet computers), micro ATM as per standards version 1.5.1, Finger Print Reader / Scanner or Iris Scanner, subject to actual user condition | Applicable BCD, CVD SAD | BCD – Nil<br>CVD – Nil<br>SAD – Nil |
| | Silver medallion, silver coins having silver content not below 99.9%, semi manufactured form of silver and articles of silver | CVD - Nil | CVD – 12.5% |
| | Goods imported for petroleum and coal bed methane operations by availing of the benefit of notification No.12/2012- Customs, dated 17.03.2012 [S. No.357A] no longer required for the said purpose are being allowed to be disposed of on payment of applicable customs duties or excise duty, on the depreciated value calculated as per straight line method (subject to depreciated value not being less than 30% of the original value) of such goods. | | |
| | Clause (c) of sub-section (3) of section 9 is being substituted so as to withdraw the exemption to three categories of non-actionable subsidies specified therein from the scope of anti-subsidy investigations. | | |
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