Union Budget
2013-2014

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Key Highlights

The Economy and the Challenges

- Getting back to potential growth rate of 8 percent is the challenge facing the country.
- Slowdown in Indian economy has to be seen in the context of slowing global economic growth from 3.9 per cent in 2011 to 3.2 per cent in 2012.
- However, no reason for gloom or pessimism. Of the large countries of the world, only China and Indonesia growing faster than India in 2012-13. In 2013-14, only China projected to grow faster than India.
- Between 2004 and 2008, and again in 2009-10 and 2010-11 the growth rate was over 8 per cent and crossed 9 per cent in four of those six years.
- 11th Plan period had average growth rate of 8 percent, highest during any Planperiod, entirely under the UPA Government.
- High growth rate can again be achieved through cooperation.
- Higher growth leading to inclusive and sustainable development' to be the mool mantra.
- Government believes in inclusive development with emphasis on improving human development indicators specially of women, the scheduled castes, the scheduled tribes, the minorities and some backward classes. This Budget to be a testimony to that commitment.

Direct Tax

- No case to revise either the slabs or the rates of Personal Income Tax. Even a moderate increase in the threshold exemption will put hundreds of thousands of Tax Payers outside Tax Net.
- However, relief for Tax Payers in the first bracket of Rs 2 lakhs to Rs 5 lakhs. A tax credit of Rs 2000 to every person with total income upto Rs 5 lakhs.

- Surcharge of 10 percent on persons (other than companies) whose taxable income exceed Rs 1 crore to augment revenues.
- Increase surcharge from 5 to 10 percent on domestic companies whose taxable income exceed Rs 10 crore.
- In case of foreign companies who pay a higher rate of corporate tax, surcharge to increase from 2 to 5 percent, if the taxable income exceeds Rs 10 crore.
- In all other cases such as dividend distribution tax or tax on distributed income, current surcharge increased from 5 to 10 percent.
- Additional surcharges to be in force for only one year.
- Education cess to continue at 3 percent.
- Permissible premium rate increased from 10 percent to 15 percent of the sum assured by relaxing eligibility conditions of life insurance policies for persons suffering from disability and certain ailments.
- Contributions made to schemes of Central and State Governments similar to Central Government Health Scheme, eligible for section 80D of the Income tax Act.
- Donations made to National Children Fund eligible for 100 percent deduction.
- Investment allowance at the rate of 15 percent to manufacturing companies that invest more than Rs 100 crore in plant and machinery during the period 1.4.2013 to 31.3.2015.
- ‘Eligible date’ for projects in the power sector to avail benefit under Section 80- IA extended from 31.3.2013 to 31.3.2014.
- Concessional rate of tax of 15 percent on dividend received by an Indian company from its foreign subsidiary proposed to continue for one more year.
- Securitisation Trust to be exempted from Income Tax. Tax to be levied at specified rates only at the time of distribution of income for companies, individual or HUF etc. No further tax on income received by investors from the Trust.
- Investor Protection Fund of depositories exempt from Income-tax in some cases.
- Parity in taxation between IDF-Mutual Fund and IDF-NBFC.
- A Category I AIF set up as Venture capital fund allowed pass through status under Income-tax Act.
- TDS at the rate of 1 percent on the value of the transfer of immovable properties where consideration exceeds Rs 50 lakhs. Agricultural land to be exempted.
- A final withholding tax at the rate of 20 percent on profits distributed by unlisted companies to shareholders through buyback of shares.
- Proposal to increase the rate of tax on payments by way of royalty and fees for technical services to non-residents from 10 percent to 25 percent.
- Reductions made in rates of Securities Transaction Tax in respect of certain transaction.
- Proposal to introduce Commodity Transaction Tax (CTT) in a limited way.
- Agricultural commodities will be exempted.
- Modified provisions of GAAR will come into effect from 1.4.2016.
- Rules on Safe Harbour will be issued after examining the reports of the Rangachary

Indirect Tax

- No change in the normal rates of 12 percent for excise duty and service tax.
- No change in the peak rate of basic customs duty of 10 percent for non-agricultural products.

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Customs

- Period of concession available for specified part of electric and hybrid vehicles extended upto 31 March 2015.
- Duty on specified machinery for manufacture of leather and leather goods including footwear reduced from 7.5 to 5 percent.
- Duty on pre-forms precious and semi-precious stones reduced from 10 to 2 percent.
- Export duty on de-oiled rice bran oil cake withdrawn.
- Duty of 10 percent on export of unprocessed ilmenite and 5 percent on export on ungraded ilmenite.
- Concessions to air craft maintenance, repair and overhaul (MRO) industry.
- Duty on Set Top Boxes increased from 5 to10 percent.
- Duty on raw silk increased from 5 to 15 percent.
- Duties on Steam Coal and Bituminous Coal equalised and 2 percent custom duty and 2 percent CVD levied on both kinds coal.
- Duty on imported luxury goods such as high end motor vehicles, motor cycles, yachts and similar vessels increased.
- Duty free gold limit increased to Rs 50,000 in case of male passenger and Rs 1,00,000 in case of a female passenger subject to conditions.

Excise duty

- Relief to readymade garment industry. In case of cotton, zero excise duty at fibre stage also. In case of spun yarn made of man made fibre, duty of 12 percent at the fibre stage.
- Handmade carpets and textile floor coverings of coir and jute totally exempted from excise duty.
- To provide relief to ship building industry, ships and vessels exempted from excise duty. No CVD on imported ships and vessels.
- Specific excise duty on cigarettes increased by about 18 percent. Similar increase on cigars, cheroots and cigarillos.
- Excise duty on SUVs increased from 27 to 30 percent. Not applicable for SUVs registered as taxies.
- Excise duty on marble increased from Rs 30 per square meter to Rs 60 per square meter.
- Proposals to levy 4 percent excise duty on silver manufactured from smelting zinc or lead.
- Duty on mobile phones priced at more than Rs 2000 raised to 6 percent.
- MRP based assessment in respect of branded medicaments of Ayurveda, Unani, Siddha, Homeopathy and bio-chemic systems of medicine to reduce valuation disputes.

Service Tax

- Maintain stability in tax regime.
- Vocational courses offered by institutes affiliated to the State Council of Vocational Training and testing activities in relation to agricultural produce also included in the negative list for service tax.
- Exemption of Service Tax on copyright on cinematography limited to films exhibited in cinema halls.
- Proposals to levy Service Tax on all air conditioned restaurant.
- For homes and flats with a carpet area of 2,000 sq.ft. or more or of a value of Rs 1 crore or more, which are high-end constructions, where the component of services is greater, rate of abatement reduced from from 75 to 70 percent.
- Out of nearly 17 lakh registered assesses under Service Tax only 7 lakhs file returns regularly. Need to motivate them to file returns and pay tax dues. A onetime scheme called 'Voluntary Compliance Encouragement Scheme' proposed to be introduced. Defaulter may avail of the scheme on condition that he files truthful declaration of Service Tax dues since 1st October 2007.

- Tax proposals on Direct Taxes side estimated to yield to Rs 13,300 crore and on the Indirect Tax side Rs 4,700 crore.

Good and Services Tax

- A sum of Rs 9,000 crore towards the first installment of the balance of CST compensation provided in the budget.
- Work on draft GST Constitutional amendment bill and GST law expected to be taken forward.

Investment, Infrastructure and Industry

- Communication with investors to be improved to remove any apprehension or distrust, including fears about undue regulatory burden.
- Need of new and innovative instruments to mobilise funds for investment in infrastructure sector. Measures such as:
  - Infrastructure Debt Funds (IDF) to be encouraged,
  - IIFCL to offer credit enhancement,
  - Infrastructure tax-free bond of ` 50,000 crore in 2013-14,
  - Build roads in North eastern states and connect them to Myanmar with assistance from WB & ADB,
  - Raising corpus of Rural Infrastructure Development Fund (RIDF) to Rs 20,000 crore and
  - Rs 5,000 crore to NABARD to finance construction for warehousing. Window to Panchayats to finance construction of godowns.

Road Construction

- A regulatory authority for road sector.
- 3000 kms of road projects in Gujarat, Madhya Pradesh, Maharashtra, Rajasthan and Uttar Pradesh will be awarded in the first six months of 2013-14.

Cabinet Committee on Investment

- The Cabinet Committee on Investment (CCI) has been set up. Decisions have been taken in respect of a number of gas, power and coal projects.

New Investment

- Companies investing Rs 100 crore or more in plant and machinery during the period 1.4.2013 to 31.3.2015 will be entitled to deduct an investment allowance of 15 per cent of the investment.
- Incentives to semiconductor wafer fab manufacturing facilities, including zero customs duty for plant and machinery.

Savings

- Need to incentivize greater savings by household sector in financial instruments. Following measures proposed:
  - Rajiv Gandhi Equity Savings Scheme to be liberalised.
  - Additional deduction of interest upto Rs 1 lakh for a person taking first home loan upto Rs 25 lakh during period 1.4.2013 to 31.3.2014
  - In consultation with RBI, instruments protecting savings from inflation to be introduced.

Ports

- Two new major ports will be established in Sagar, West Bengal and in Andhra Pradesh to add 100 million tonnes of capacity.
- A new outer harbour to be developed in the VOC port at Thoothukkudi, Tamil Nadu through PPP at an estimated cost of Rs 7,500 crore.

Oil and Gas

- A policy to encourage exploration and production of shale gas will be announced.
- The 5 MMTPA LNG terminal in Dabhol, Maharashtra will be fully operational in 2013-14.

Coal

- In the medium to long term need to reduce our dependence on imported coal. One way forward is to devise a PPP policy framework with Coal India Limited as one of the partners.

Power

- Guidelines regarding financial restructuring of DISCOMS have been announced. State Government urged to prepare the financial restructuring plan, quickly sign MoU and take advantage of the scheme.

Micro, Small and Medium Enterprises

- Benefits or preferences enjoyed by MSME to continue upto three years after they grow out of this category.
- Refinancing capacity of SIDBI raised to Rs 10,000 crore.
- Another sum of Rs 100 crore provided to India Microfinance Equity Fund.
- A corpus of Rs 500 crore to SIDBI to set up a Credit Guarantee Fund for factoring.
- A sum of Rs 2,200 crore during the 12th Plan period to set up 15 additional Tool Rooms and Technology Development Centres with World Bank assistance.
- Ministry of Corporate Affairs to notify that funds provided to technology incubators located within academic Institutions and approved by the Ministry of Science and Technology or Ministry of MSME will qualify as CSR expenditure.

Financial Sector

- A standing Council of Experts to be constituted in the Ministry of Finance to analyse the international competitiveness of the Indian financial sector.

Banking

- Compliance of public sector banks with Basel III regulations to be ensured. Rs 14,000 crore provided in BE 2013-14 for infusing capital.
- All branches of public sector banks to have ATM by 31.3.2014.
- Proposal to set up India’s first Women’s Bank as a public sector bank. Provision of Rs 1,000 crore as initial capital.
- Rs 6,000 crore to Rural Housing Fund in 2013-14.
- National Housing Bank to set up Urban Housing Fund. Rs 2,000 crore to be provided to the fund in 2013-14.

Insurance

- A multi-pronged approach to increase the penetration of insurance, both life and general, in the country.
- Number of proposals finalised, in consultation with IRDA such as empowering insurance companies to open branches in Tier-II cities and below without prior approval of IRDA, KYC of banks to be sufficient to acquire insurance policies, banks to be permitted to act as insurance brokers, banking correspondent allowed to sell micro-insurance products and achieving the goal of having an office of LIC and an office of at least one public sector general insurance company in towns with population of 10,000 or more.
- Rashtriya Swasthya Bima Yojana to be extended to other categories such as rickshaw, auto-rickshaw and taxi drivers, sanitation workers, rag pickers and mine workers.
- A comprehensive social security package to be evolved for unorganised sector by facilitating convergence among different schemes.

Capital Market

- Proposal to amend the SEBI Act, to strengthen the regulator, under consideration.
- Number of proposal finalised in consultation with SEBI.
    - Designatged depository participants, authorised by SEBI, may register different classes of portfolio investors, subject to compliance with KYC guidelines.
    - SEBI will simplify the procedures and prescribe uniform registration and other norms for entry for foreign portfolio investors.
    - Rule that, where an investor has a stake of 10 per cent or less in a company, it will be treated as FII and, where an investor has a stake of more than 10 per cent, it will be treated as FDI will be laid.
    - FIIs will be permitted to participate in the exchange traded currency derivative segment to the extent of their Indian rupee exposure in India.
    - FIIs will also be permitted to use their investment in corporate bonds and Government securities as collateral to meet their margin requirements.
    - SEBI to prescribed requirement for angel investor pools by which they can be recognised as Category I AIF venture capital funds.
    - Small and medium enterprises, to be permitted to list on the SME exchange without being required to make an initial public offer (IPO).
    - Stock exchanges to be allowed to introduce a dedicated debt segment on the exchange.

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