



Government of India

‘This Budget is of an “India that is on the move.” An India, that now rapidly advances to prosperity. It is about an India that banishes poverty, and builds on its great resource base, the strength of its human capital and the immense reservoir of its knowledge.’

BUDGET 2003-04

February 28, 2003.

Key Features of Budget 2003-2004

BUDGET PRIORITIES

- Poverty eradication; addressing the 'life time concerns' of citizens, covering health, housing, education and employment;
- Infrastructure development;
- Fiscal consolidation through tax reforms and progressive elimination of budgetary drags, including reform of the additional excise duty, introduction of service tax, and introduction of Value Added Tax (VAT) from April 1, 2003 at the State level.
- Agriculture and related aspects including irrigation; and
- Enhancing manufacturing sector efficiency, including promotion of exports and further acceleration of the reform process.

ANTYODAYA AND LIFE-TIME CONCERNS

Antyodaya Anna Yojana

- Antyodaya Anna Yojana will be expanded, from April 1, 2003, to cover an additional 50 lakh families raising the total coverage to more than a quarter of all BPL families during the year 2003-04.

Life-time concerns



Housing

- Interest deductible under income tax up to Rs.1,50,000, for construction or purchase of a self-occupied house property, to continue.
- Income from housing projects for construction of residential units of prescribed specification, approved by the local authorities up to March 31, 2005, exempt from income tax.



Education

- Education expenses up to Rs.12,000 per child for two children, made eligible for rebate under Section 88 of the Income Tax Act.
- Royalty income up to Rs.3 lakh per annum, received by authors of literary, artistic and scientific books fully exempt; as also royalty received by individuals from exploitation of patents.



Health

- Benefit of Section 10(23 G) of IT Act extended to such financial institutions as provide long-term capital to private hospitals with 100 beds or more.
- Rate of depreciation in respect of life saving medical equipment increased from 25 per cent to 40 per cent.
- Basic customs and excise duties on rough ophthalmic blanks reduced from 25 to 5 per cent, and from 16 to 8 per cent, respectively.
- Customs duty on specified life saving equipment reduced from 25 per cent to 5 per cent, with exemption from CVD (additional duty of customs). Life saving equipment already exempt from CVD, exempted from excise duty as well.
- Concessional duty rate of 5 per cent extended to more drugs. Life saving drugs currently attracting nil or 5 per cent customs duty also exempt from excise duty. Basic customs duty on glucometers and glucometer strips used by diabetics, reduced from 10 per cent to 5 per cent; with exemption from excise duty as well. Cyclosporine exempted from excise duty.

Health insurance

- A community-based universal health insurance scheme will be designed during 2003-04. Premium equivalent to Re.1 per day (or Rs.365 per year) for an individual, Rs.1.50 per day for a family of five, and Rs.2 per day for a family of seven, will entitle eligibility to reimbursement of hospitalisation expenses up to Rs.30,000, a cover for death due to accident for Rs.25,000, and compensation due to loss of earning at the rate of Rs.50 per day up to a maximum of 15 days. To make the scheme affordable to BPL families, Government to contribute Rs.100 per year towards their annual premium.

Disabled and handicapped

- Physically handicapped or persons with such dependents entitled for income tax purposes to a deduction of Rs.50,000 for permanent physical disability, and an enhanced deduction of Rs.75,000 in case of severe disability.
- Customs duty on hearing aids, crutches, wheel chairs, walking frames, tricycles, brailers and artificial limbs reduced to 5 per cent without Special Additional Duty (SAD). They will be exempt from CVD, and the domestic

manufacturers will be exempt from excise duty. Customs duty on parts of hearing aids and wheel chairs reduced to 5 per cent without CVD and SAD.

The salaried

- Standard deduction for salaried employees raised to 40 per cent of salary, or Rs.30,000, whichever is less, for salary income up to Rs.5 lakh; and a deduction of Rs.20,000 allowed for salary income above Rs.5 lakh. VRS payments exempted up to Rs.5 lakh, even when taken in instalments.

Senior citizens and pensioners

- Tax rebate to senior citizens increased to Rs.20,000. As a result, their income up to Rs.1.53 lakh (Rs.1.83 lakh in the case of senior citizens on pension because of standard deduction) will henceforth become fully exempt from income tax. Self-declarations filed by senior citizens, in regard to no deduction of tax at source, to be accepted.

Insurance pension scheme

- A special pension policy to be called *Varishtha Pension Bima Yojana*, guaranteeing an annual return of 9 per cent, in the form of a monthly pension scheme to be launched by Life Insurance Corporation of India (LIC). The minimum and maximum monthly pensions proposed are Rs.250 and Rs.2,000 per month.

Ex-servicemen

- Income tax exemption to be granted to Corporations set up under a Central, or State Act for the benefit of ex-servicemen.

Restructured pension scheme

- A restructured pension scheme for new Central Government employees, (except in the armed forces) and for the general public. The scheme will be based on defined contribution, shared equally in the case of Government employees between the Government & the employees.



PHYSICAL INFRASTRUCTURE

Roads, Railways, Airports and Seaports

- A major thrust through innovative funding mechanisms to be provided covering the following:
 - 48 new **road projects** at an estimated cost of around Rs.40,000 crore; with a quarter of them being made of cement concrete.

- **National Rail Vikas Yojana** projects worth Rs.8,000 crore funded through Rs.3,000 crore worth of equity, provided by the Government, and Rs.5,000 crore worth of loans;
- **Renovation/modernisation of two airports, and two seaports** at an estimated cost of Rs.11,000 crore; and
- establishing two global standard international convention centres at an estimated cost of Rs.1,000 crore.



Rural roads

- Apart from allocating the anticipated Rs.2,325 crore from the existing cess on diesel for 2003-04, additional funds will be made available for rural roads from the proposed additional cess on diesel of 50 paise.



Power

- The mega power project policy to be liberalised further by extending all the benefits to any power project that fulfills the conditions already prescribed for mega power projects. Customs duty on specific equipment for high voltage transmission projects reduced from 25 per cent to 5 per cent.
- A special allocation of Rs.20 crore to the Council for Scientific and Industrial Research, for launching incentive-driven research in the fields of solar energy, wind turbines, and hydrogen fuel as alternatives to fossil fuels.



Drinking Water

- Water supply projects totally exempt in regard to capital goods and machinery, both from customs and excise duties. In addition, pipes exempted from excise duty for bringing raw water from source to the treatment plant and for conveying treated water to the storage place.



FISCAL CONSOLIDATION AND DEBT RESTRUCTURING

Cash Management

- Cash management to be initiated, on a pilot basis, in some major spending ministries, releasing budgetary allocations in a time-sliced manner.

External debt prepayment

- Government has effected premature repayment of 'high-cost' currency pool loans of the World Bank and of the Asian Development Bank totalling around \$ 3 billion.

Domestic debt of the Central Government

- A buy back of banks' holding of Central Government domestic debt, contracted under the high interest regime of the past to be offered, entirely on a voluntary basis.

State Governments' debt

- A debt swap scheme has been introduced to enable States to prepay high cost debt. States will save an estimated Rs.81,000 crore in interest, and deferred loan repayments, over the residual maturity period of the loans.



AGRICULTURE

Diversification into horticulture, floriculture, etc.

- A new Central Sector Scheme on Hi-tech Horticulture and Precision Farming to be introduced. Major components of the scheme will be use of hi-tech interventions like fertigation, use of biotechnological tools, green food production, and hi-tech green houses.

Plantations

- With a view to providing stability in terms of income for the small growers, a Price Stabilisation Fund of Rs.500 crore for the benefit of tea, coffee, and natural rubber growers will become operational in 2003-04.
- Excise duty of Re. 1 per kg. of tea to be replaced by a cess of Re.1 per kg., for creating a separate fund for development, modernisation and rehabilitation of the tea plantation sector.



Animal husbandry and veterinary medicine

- Basic customs duty on specified veterinary drugs reduced from 15 per cent to 10 per cent. To promote marine food industry, the customs duty on shrimp larvae feed reduced from 15 per cent to 5 per cent, with exemption from CVD.

Credit availability

- In order to pass on the benefits of lower rates of interest to agriculture and the SSI sector, the State Bank of India has announced an interest rate band of 2 per cent above and below its prime lending rate (PLR) for secured advances.
- By January 2003, bank credit of Rs.598 crore provided to about 25 lakh poor families through 1.50 lakh new Self-Help Group (SHGs) under the SHG – Bank Linkage Programme propagated by NABARD.
- The question of franchising agricultural credit, including through Post Offices will be examined afresh.

Fertiliser subsidy

- Issue price of fertilizers to be raised by a modest amount of Rs.12 for urea, and Rs.10 for DAP and MOP, per 50 kg bag. The price of complex fertilizers also to be suitably modified.



Water management and irrigation

- A bipartisan Task Force, headed by the Chief Minister of Andhra Pradesh, and with a Minister of Agriculture from another State, as one of the members, to be constituted to recommend measures needed to be adopted to expand the coverage of drip and sprinkler irrigation and to suggest safeguards so that the intended benefits actually reach the target groups.
- A Task Force appointed to suggest modalities for arriving at a consensus amongst the States on transfer of water to deficit areas and for identifying the priority links which could be implemented early, as well as a mechanism for their clearance and funding.
- A special programme, *Maru Gochar Yojana*, to be taken up for the desert districts of Rajasthan, for rehabilitation of traditional pastures – ‘*Oran*’ or ‘*Gauchar*’ – by developing at least one large pasturage nursery in each of the identified districts, as a Central scheme, for restoration of traditional water courses, and other measures so as to provide effective drought proofing.



INDUSTRY

Promoting investment: tax treatment of dividends and capital gains

- From April 1, 2003 dividends tax-free in the hands of the shareholders. Correspondingly, there will be a 12.5 per cent dividend distribution tax on domestic companies.
- All listed equities that are acquired on or after March 1, 2003, and sold after the lapse of a year, or more, exempt from the incidence of capital gains tax.

Research and development

- Tax holiday extended to R&D companies established up to March 31, 2004.



Textiles

- A package of incentives through rationalisation of excise duty to be introduced so as to have a moderate rate structure; to complete the CENVAT chain to promote compliance; to encourage modernisation; and to eliminate evasion.
- To encourage modernisation of the textile industry, customs duty on a large number of textile machinery and their parts reduced from the existing 25 per cent to 5 per cent.
- A Power-loom Package for Modernisation to be offered. A new Power-loom Workshed Scheme will be introduced by the Ministry of Textiles together with the State Governments. As a welfare measure, all powerloom workers will be covered under a Special Insurance Scheme.



Pharmaceuticals, Information technology (IT) and Bio-technology

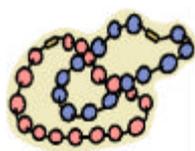
- Income tax concessions to pharmaceuticals, bio-technology and information technology shall be at par.

- All drugs and materials imported or produced domestically for clinical trials exempt from customs and excise duties.
- Concessions extended to IT under Sections 10A and 10B of the Income Tax Act to continue, even in the case of amalgamation or de-merger.
- Value of pre-loaded software excluded for the purpose of charging excise duty on computers.
- Customs duty on a number of capital goods used by the telecom and IT sector for manufacture of components reduced from 25 per cent to 15 per cent. For optical fibre cables, the customs duty reduced from 25 per cent to 20 per cent. Import duty on specified raw materials for the manufacture of e-glass roving used for making optical fibres reduced from 30 per cent to 15 per cent.
- In respect of R&D units with manufacturing facilities, the benefit of full customs duty exemption for specified equipment available for their manufacturing activity to the extent of 25 per cent of the previous year's export turnover.



Tourism

- A set of incentives to be provided through: withdrawal of the expenditure tax; extension of the benefit of Section 10(23 G) to financial institutions that advance long-term capital to hotels in three-star and above categories; benefit of set-off of unabsorbed loss and depreciation on amalgamation to be available to hotels under Section 72A of the Income tax Act; continuation of the exemption for the hotel industry from the levy of service tax; and reduction of basic customs duty on imported equipment for ropeway projects to 5 per cent without payment of CVD and SAD.



Gems and jewellery

- Customs duty on rough, coloured gem stones reduced from 5 per cent, and on semi-processed, half-cut or broken diamonds from 15 per cent to nil; on cut and polished diamonds and gem stones from 15 per cent to 5 per cent.
- Customs duty on imported gold reduced to Rs.100 per 10 grams, when brought in the form of serially numbered bars, gold coins.

- Benefits under Sections 10A and 10B of the Income tax Act extended to cutting and polishing of diamonds and gems.

Strengthening ECGC

- To enable ECGC to provide adequate underwriting support to project exports, Government has decided to increase its share capital to Rs.80 crore.



Small-scale industry (SSI)

- SSI reservation will be withdrawn from 75 items of laboratory chemicals and reagents, leather and leather products, plastic products, chemicals and chemicals products and paper products.

Disinvestment

- Details about the Disinvestment Fund and Asset Management Company to hold residual shares post disinvestment, shall be finalized early in 2003-04.

OTHER REFORMS



Banking

- Foreign direct investment (FDI) limit in banking companies will be raised from 49 per cent to 74 per cent.
- Limit of 10 per cent irrespective of shareholding, on the voting rights of any person holding shares of a banking company will be removed.

Interest rate

- Rates of interest on public provident fund, and small savings schemes, etc. will be reduced by one percentage point with effect from March 1. Interest on relief and savings bonds will also be reset.

Capital account

- Overseas investment under the automatic route will be permitted to corporates with a proven track record, even where the investment is not in the same core activity. Limit on such investment will be raised from 50 per cent of the net worth of the Indian company to 100 per cent.

- Prepayment of ECB dues under the automatic route will be permitted by removing the current ceiling of US \$100 million.

External aid

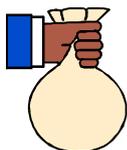
- Government of India would now prefer to relieve certain bilateral partners, with smaller assistance packages. A debt relief package for the Heavily Indebted Poor Countries (HIPCs) will be announced.

TAX REFORM

- Additional Duties of Excise Act, 1957 being amended to allow States to levy sales tax on textiles, sugar and tobacco products at a rate not exceeding 4 per cent.
- Constitutional amendment proposed to give Central Government the power to levy service tax and both the Central and the State Governments powers to collect the proceeds.

Central Sales Tax

- Ceiling rate of CST for inter-State sale between registered dealers will be reduced to 2 per cent.



Direct taxes

- 5 per cent surcharge halved in the case of corporates and removed in the case of individuals and HUFs, except those earning an income above Rs.8.5 lakh. A 10 per cent surcharge on those earning above Rs.8.5 lakh.
- General deduction of Rs.9,000 given to individual taxpayers having income from dividends, interest, etc. increased to Rs.12,000. An additional deduction of Rs.3,000 allowable in respect of interest from Government securities.
- Individuals and HUF carrying on business or profession need not deduct tax at source, from payments made by them for personal purposes.

Administrative reform

- Outsourcing of non-core activities of Income Tax Department, namely allotment of PAN etc.;
- A computer generated, intelligent, random selection of only 2 per cent of the returns, annually for scrutiny;
- direct crediting of all refunds to the bank account of the taxpayer, through electronic clearance system;
- Number of forms used for purposes of tax deduction and tax collection at source reduced from 42 to 22.

- Introduction of a one-page return form for individual tax payers, having income from salary, house property and interest, etc.;
- Electronic filing of returns;
- Abolition of tax-clearance certificates currently needed by a person leaving India, or any person submitting a tender for a government contract.

Indirect taxes: excise

Rationalisation and relief

- A 3-tier excise duty structure of 8 per cent, 16 per cent and 24 per cent will be prescribed.
- Duty on tyres, aerated soft drinks, polyester filament yarn, air-conditioners and motor cars reduced from 32 per cent to 24 per cent.
- Items of the ordinary citizen's use, currently attracting 4 per cent excise duty will be fully exempt: Unbranded surgical bandages; Registers and account books; Umbrellas; Kerosene pressure lanterns; Articles of wood; Imitation zari; Adhesive tapes; Tubular knitted gas mantle fabrics; Walking sticks; Articles of mica; Bicycles and parts; Toys; Mosaic tiles; Utensils and kitchen articles; Knives, spoons and similar kitchenware/tableware; Glasses for corrective spectacles.
- Matches made by the non-mechanized sector will be fully exempt from excise duty. Matches made by semi-mechanized and mechanized sector will attract an ad-valorem duty of 8 per cent without CENVAT.
- Excise duty on medicines and toilet preparations containing alcohol reduced from present rates of 20 to 50 per cent to a uniform rate of 16 per cent.
- Excise duty on items pressure cookers, ophthalmic blanks, biscuits, boiled sweets and dental chairs reduced from 16 per cent to 8 per cent. Recorded audio compact discs (CDs) fully exempt.

Transport

- Duty on electric vehicles reduced from 16 per cent to 8 per cent.
- A fresh excise levy of 8 per cent imposed on the following items, with the CENVAT credit facility available to them: branded refined edible oil and vanaspati packed in sealed containers for retail sale – this will not apply to unbranded oil; lay flat tubing; chemical reagents; wood free particle or fibre board made from agro base; paper and paper board made from non conventional raw material; and populated printed circuit board for black and white TV sets.

- Specific rates on cement and clinker increased by Rs.50 per tonne.
- Additional excise duty of Rs.1.50 per litre imposed on light diesel oil.

National Calamity Contingency Fund

- A 1 per cent National Calamity Contingency Duty imposed on polyester filament yarn, motor cars and two-wheelers and duty of Rs.50 per metric tonne on crude, domestic or imported.

Service tax

- General service tax rate enhanced from 5 per cent to 8 per cent, and levy imposed on 10 new services.
- Facility of credit of service tax on input services extended across all services, even if the input and the final services fall under different categories.



Indirect taxes: customs

- Peak rate of customs duty reduced from 30 per cent to 25 per cent excluding agriculture and dairy products.
- Customs duty on metallurgical coke and nickel rationalized to a uniform rate of 10 per cent.
- Duty on conch shells and seed lac reduced from 30 per cent to 5 per cent.
- Import duty on oleo pine resin, a raw material for rosin reduced from 15 per cent to 10 per cent.
- Value limit for a full customs duty exemption, for bonafide commercial samples and gifts raised from Rs.5,000 to Rs.10,000.
- Customs duty on passenger baggage reduced from 60 per cent to 50 per cent.

Capital goods and infrastructure

- Customs duty reduced on LNG regassification plants from 25 per cent to 5 per cent; on components of membrane cell technology used in the caustic soda industry from 15 per cent to 5 per cent; on spares for diesel locomotives, parts for conversion of locomotives from DC to AC from 25 per cent to 15 per cent on loco simulators for training of drivers from 25 per cent to 5 per cent; and on refrigerated trucks from 25 per cent to 20 per cent.