Budget 2012-2013

Speech of

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Minister of Finance

March 16, 2012

Madam Speaker,

I rise to present the Union Budget for 2012-13.

For the Indian economy, this was a year of recovery interrupted. When one year ago, I rose to present the Budget, the challenges were many, but there was a sense that the world economy was on the mend. The Budget was presented in the first glimmer of hope. But reality turned out to be different. The sovereign debt crisis in the Euro zone intensified, political turmoil in Middle East injected widespread uncertainty, crude oil prices rose, an earthquake struck Japan and the overall gloom refused to lift.

2. While I believe that there should be no room for complacency, nor any excuse for what happens in one's own country, we will be misled if we ignore the ground realities of the world. The global crisis has affected us. India's Gross Domestic Product (GDP) is estimated to grow by 6.9 per cent in 2011-12, after having grown at the rate of 8.4 per cent in each of the two preceding years. Though we have been able to limit the adverse impact of this slowdown on our economy, this year's performance has been disappointing. But it is also a fact that in any cross-country comparison, India still remains among the front runners in economic growth.

3. For the better part of the past two years, we had to battle near double-digit headline inflation. Our monetary and fiscal policy response during this period was geared towards taming domestic inflationary pressures. A tight monetary policy impacted investment and consumption growth. The fiscal policy had to absorb expanded outlays on subsidies and duty reductions to limit the pass-through of higher fuel prices to consumers. As a result growth moderated and the fiscal balance deteriorated.

4. But there is good news in the detail. With agriculture and services continuing to perform well, India's slowdown can be attributed almost entirely to weak industrial growth. While we do not have aggregate figures for the last quarter of 2011-12, numerous indicators pertaining to this period suggest that the economy is now turning around. There are signs of recovery in coal, fertilisers, cement and electricity sectors. These are core sectors that have an impact on the entire economy. Indian manufacturing appears to be on the cusp of a revival.

5. We are now at a juncture when it is necessary to take hard decisions. We have to improve our macroeconomic environment and strengthen domestic growth drivers to sustain high growth in the medium term. We have to accelerate the pace of reforms and improve supply side management of the economy.

6. We are about to enter the first year of the Twelfth Five Year Plan which aims at "faster, sustainable and more inclusive growth." The Plan will be launched with the Budget proposals for 2012-13. In keeping with the stated priorities, I have identified five objectives that we must address effectively in the ensuing fiscal year. These are:

- Focus on domestic demand driven growth recovery;
- Create conditions for rapid revival of high growth in private investment;
- Address supply bottlenecks in agriculture, energy and transport sectors, particularly in coal, power, national highways, railways and civil aviation;
- Intervene decisively to address the problem of malnutrition especially in the 200 high-burden districts; and
- Expedite coordinated implementation of decisions being taken to improve delivery systems, governance, and transparency; and address the problem of black money and corruption in public life.

7. Today, India has global responsibilities of a kind that it did not have earlier. Our presence at the high table of global economic policy makers is a matter of some satisfaction. It, however, places new responsibilities on our shoulders. If India can continue to build on its economic strength, it can be a source of stability for the world economy and provide a safe destination for restless global capital.

8. I know that mere words are not enough. What we need is a credible roadmap backed by a set of implementable proposals to meet those objectives. In my attempt to do so, I have benefited from the able guidance of Hon'ble Prime Minister, Dr. Manmohan Singh, and strong support of the UPA Chairperson Smt. Sonia Gandhi.

I would now begin with a brief overview of the economy.

Overview of the Economy

9. Yesterday, I laid on the table of the House the Economic Survey 2011-12, which gives a detailed analysis of the economy over the past 12 months. India's GDP is estimated to grow at 6.9 per cent in real terms in 2011-12. The growth is estimated to be 2.5 per cent in agriculture, 3.9 per cent in industry and 9.4 per cent in services. There is a significant slowdown in comparison to the preceding two years, primarily due to deceleration in industrial growth, more specifically in private investment. Rising cost of credit and weak domestic business sentiment, added to this decline.

10. The headline inflation remained high for most part of the year. It was only in December 2011 that it moderated to 8.3 per cent followed by 6.6 per cent in January 2012. Monthly food inflation declined from 20.2 per cent in February 2010, to 9.4 per cent in March 2011 and turned negative in January 2012. Though the February 2012 inflation figure has gone up marginally, I expect the headline inflation to moderate further in the next few months and remain stable thereafter.

11. India's inflation is largely structural, driven predominantly by agricultural supply constraints and global cost push. Evidence suggests that prolonged periods of high food inflation tend to get generalised. Fortunately, steps taken to bridge gaps in distribution, storage and marketing systems to strengthen food supply chains have helped us in a more effective management of inflation and led to a decline in food inflation.

12. The developments in India's external trade in the first half of the current year were encouraging. During April-January 2011-12, exports grew by 23 per cent to reach US Dollar 243 billion, while imports at US Dollar 391 billion recorded a growth of over 29 per cent. What is heartening is that India has successfully achieved diversification of export and import markets. The share of Asia, including ASEAN, in total trade increased from 33.3 per cent in 2000-2001 to 57.3 per cent in the first half of 2011-12. This has helped us weather the impact of global crisis emanating from Europe and to a lesser extent from USA.

13. The current account deficit as a proportion of GDP for 2011-12 is likely to be around 3.6 per cent. This, along with reduced net capital inflows in the second and third quarters, put pressure on the exchange rate.

14. Taking a bird's eye view of the entire economy and keeping in mind the difficult global environment, I expect India's GDP growth in 2012-13 to be 7.6 per cent, +/- 0.25 per cent.

15. I expect average inflation to be lower next year. I also expect the current account deficit to be smaller, aided by improvement in domestic financial savings.

II. Growth

I now turn to growth and fiscal consolidation.

16. Our fiscal balance has deteriorated in 2011-12 due to slippage in direct tax revenue and increased subsidies. On both counts our underlying assumptions at the time of Budget presentation last year were belied by subsequent developments. The profit margins came under pressure due to higher interest rates and material costs. This impacted growth in corporate taxes. Further, as against an assumption of US Dollar 90 a barrel, the average price of crude oil in 2011-12 is likely to exceed US Dollar 115. This has necessitated higher outlay on subsidies than projected. The continuing uncertainty in the global environment makes it necessary for us to strike a balance between fiscal consolidation and strengthening macroeconomic fundamentals to create adequate headroom to deal with future shocks.

Fiscal Consolidation

FRBM Act

17. The implementation of the Fiscal Responsibility and Budget Management Act, 2003 (FRBM Act) at Centre and the corresponding Acts at State level was the pivot in the successful consolidation of our fiscal balance prior to the global financial crisis of 2008. The outbreak of the crisis coincided with the year when the mandated targets of 3 per cent fiscal deficit and elimination of revenue deficit were to be achieved. The Government had to deviate from these targets due to injection of fiscal stimulus at that time. Following my announcement in the last Budget Speech, I am now introducing amendments to the FRBM Act as part of Finance Bill, 2012.

Expenditure Reforms

18. The fiscal targets for Centre under the amendments to the FRBM Act are indicated in the Budget documents. Meanwhile, I would like to highlight two of its features that are steps in the direction of expenditure reforms. First, the concept of Effective Revenue Deficit, introduced in the last Budget, to address the structural imbalances in the revenue account, is being brought in as a fiscal parameter. Effective Revenue Deficit is the difference between revenue deficit and grants for creation of capital assets. Focusing on this will help in reducing the consumptive component of revenue deficit and create space for increased capital spending.

19. Second, a provision for "Medium-term Expenditure Framework Statement" is being introduced in the Act. This statement shall set forth a three-year rolling target for expenditure indicators. It would help in undertaking a de-novo exercise for allocating resources for prioritised schemes and weeding out others that have outlived their utility. This would provide greater certainty in multi-year budgeting framework. It would also encourage efficiencies in expenditure management.

20. In implementing the Twelfth Plan, the recommendations made by the Expert Committees to streamline and reduce the number of Centrally Sponsored Schemes and to address Plan and non-Plan classification, would be kept in view. The Central Plan Scheme Monitoring System would be expanded to facilitate better tracking and utilisation of funds released by the Central Government.

Subsidies

21. Fiscal consolidation calls for efforts both to raise the tax-GDP ratio and to lower the expenditure. In this context, we need to take a close look at the growth of our revenue expenditure, particularly on subsidies. The major subsidies at the Centre are for food, fertilisers and petroleum products. Some subsidies at this juncture in our development are inevitable. But they become undesirable if they compromise the macroeconomic fundamentals of the economy, more so, when they don't reach the intended beneficiaries.

22. The Government has decided that from 2012-13 subsidies related to food and for administering the Food Security Act will be fully provided for. All other subsidies would be funded to the extent that they can be borne by the economy without any adverse implications. It would be my endeavour to restrict the expenditure on Central subsidies to under 2 per cent of GDP in 2012-13. Over the next three years, it would be further brought down to 1.75 per cent of GDP. Such a step is needed to improve the quality of public spending. Our effort now will be directed towards better targeting and leakage proof delivery of the subsidies.

23. The recommendations of the task force headed by Shri Nandan Nilekani on IT strategy for direct transfer of subsidy have been accepted. Based on these recommendations, a mobile- based Fertiliser Management System (mFMS) has been designed to provide end-to-end information on the movement of fertilisers and subsidies, from the manufacturer to the retail level. This will be rolled out nation-wide during 2012. Direct transfer of subsidy to the retailer, and eventually to the farmer will be implemented in subsequent phases. This step will benefit 12 crore farmer families, while reducing expenditure on subsidies by curtailing misuse of fertilisers.

24. All the three public sector Oil Marketing Companies have launched LPG transparency portals to improve customer service and reduce leakage. A pilot project for selling LPG at market price and reimbursement of subsidy directly into the beneficiary's bank account is being conducted in Mysore. A similar pilot project on direct transfer of subsidy for kerosene into the bank accounts of beneficiaries has been initiated in Alwar district of Rajasthan. The Aadhaar platform has also been successfully used to validate PDS ration cards in Jharkhand.

25. These pilot projects show that substantial economies in subsidy outgo can be achieved by the use of Aadhaar platform. It will be our endeavour to scale up and roll out these Aadhaar enabled payments for various government schemes in at least 50 selected districts within the next six months.

Tax Reforms

26. As Hon'ble Members are aware, the Direct Taxes Code (DTC) Bill was introduced in Parliament in August 2010. It was our earnest desire to give effect to DTC from April 1, 2012. However, we received the Report of the Parliamentary Standing Committee on March 9, 2012. We will examine the report expeditiously and take steps for the enactment of DTC at the earliest.

27. Similarly, the Constitution Amendment Bill, a preparatory step in the implementation of Goods and Services Tax (GST) was introduced in Parliament in March 2011 and is before the Parliamentary Standing Committee. As we await recommendations of the Committee, drafting of model legislation for Centre and State GST in concert with States is under progress.

28. The structure of GST Network (GSTN) has been approved by the Empowered Committee of State Finance Ministers. GSTN will be set up as a National Information Utility and will become operational by August 2012. The GSTN will implement common PAN-based registration, returns filing and payments processing for all States on a shared platform. The use of PAN as a common identifier in both direct and indirect taxes, will enhance transparency and check tax evasion. I solicit the support of all my colleagues cutting across party lines for an early passage of these landmark legislations.

Disinvestment Policy

29. The Government has further evolved its approach to divestment of Central Public Sector Enterprises (CPSEs). The CPSEs are being given a level playing field vis-a-vis the private sector with regard to practices like buy-backs and listing at stock exchange. The treasury management options for CPSEs have also been enhanced. This will help improve the returns on public assets, support transparent environment for the divestment process, besides unlocking the value and resources for all stakeholders.

30. In 2011-12, as against a target of ₹ 40,000 crore, the Government will raise about ₹ 14,000 crore from disinvestment. For 2012-13, I propose to raise ₹ 30,000 crore through disinvestment. Let me reiterate here that while we are committed to enhancing people's ownership of CPSEs, at least 51 per cent ownership and management control will remain with the Government.

Strengthening Investment Environment

31. The domestic investment environment has suffered on multiple counts in the past year. It is time to fast track policy decisions and ensure on-time implementation of major projects.

Foreign Direct Investment

32. Organised retail helps in reducing cost of intermediation due to economies of scale, benefiting both consumers and producers. At present, FDI in single brand and in cash and carry wholesale trade is permitted to the extent of 100 per cent. The decision in respect of allowing FDI in multi-brand retail trade up to 51 per cent, subject to compliance with specified conditions, has been held in abeyance. Efforts are on to arrive at a broad based consensus in consultation with the State Governments.

Advance Pricing Agreement

33. In a globalised economy with expanding cross-border production chains and growing trade within entities of the same group, Advance Pricing Agreement (APA) can significantly bring down tax litigation and provide tax certainty to foreign investors. Though, the provision for APA has been included in the DTC Bill, 2010, I propose to bring forward its implementation by introducing it in the Finance Bill, 2012.

Financial Sector

34. Reforms in the financial sector have been pursued with the objective of more efficient market intermediation between savers and investors.

35. To encourage flow of savings in financial instruments and improve the depth of domestic capital market, it is proposed to introduce a new scheme called Rajiv Gandhi Equity Savings Scheme. The scheme would allow for income tax deduction of 50 per cent to new retail investors, who invest up to ₹ 50,000 directly in equities and whose annual income is below ₹ 10 lakh. The scheme will have a lock-in period of 3 years. The details will be announced in due course.

Capital Markets

36. During the year 2011-12, we took a series of steps to deepen the capital market and encourage investment in infrastructure sector. These steps included raising of FII investment limit in long-term infrastructure bonds, corporate bonds and government securities. The limit on External Commercial Borrowings (ECB) was also raised and qualified foreign investors were allowed to invest in specified Indian mutual funds and directly in equities.

37. I now propose to take the next steps in deepening the reforms in Capital market by:

- Allowing Qualified Foreign Investors (QFIs) to access Indian Corporate Bond market;
- Simplifying the process of issuing Initial Public Offers (IPOs), lowering their costs and helping companies reach more retail investors in small towns. To achieve this, in addition to the existing IPO process, I propose to make it mandatory for companies to issue IPOs of ₹ 10 crore and above in electronic form through nationwide broker network of stock exchanges;
- Providing opportunities for wider shareholder participation in important decisions of the companies through electronic voting facilities, besides existing process for shareholder voting, which would be made mandatory initially for top listed companies; and
- Permitting two-way fungibility in Indian Depository Receipts subject to a ceiling with the objective of encouraging greater foreign participation in Indian capital market.

Legislative Reforms

38. We have received the recommendations of the Standing Committee on Finance on "The Pension Fund Regulatory and Development Authority Bill, 2011", "The Banking Laws (Amendment) Bill, 2011" and "The Insurance Laws (Amendment) Bill, 2008". The official amendments to these Bills will be moved in this session of the Parliament.

39. To take forward the process of financial sector legislative reforms, the Government proposes to move the following Bills in the Budget Session of the Parliament:

- The Micro Finance Institutions (Development and Regulation) Bill, 2012;
- The National Housing Bank (Amendment) Bill, 2012;
- The Small Industries Development Bank of India (Amendment) Bill, 2012;
- National Bank for Agriculture and Rural Development (Amendment) Bill, 2012;
- Regional Rural Banks (Amendment) Bill, 2012;
- Indian Stamp (Amendment) Bill, 2012; and
- Public Debt Management Agency of India Bill, 2012.

40. The Enforcement of Security Interest and Recovery of Debts Laws (Amendment) Bill, 2011 has already been introduced in Parliament.

Capitalisation of Banks and Financial Holding Company

41. The Government is committed to protect the financial health of Public Sector Banks and financial institutions. For the year 2012-13, I propose to provide ₹ 15,888 crore for capitalisation of Public Sector Banks, Regional Rural Banks and other financial institutions including NABARD. The Government is also examining the possibility of creating a financial holding company which will raise resources to meet the capital requirements of Public Sector Banks.

42. To bring banking payment structure at par with global standards, a comprehensive action plan has been prepared for implementation in 2012-13. A central Know Your Customer (KYC) depository will be developed in 2012-13 to avoid multiplicity of registration and data upkeep.

Priority Sector Lending

43. A committee set up by RBI to re-examine the existing classification and suggest revised guidelines on priority sector lending has submitted its report. After stakeholder consultation, revised guidelines will be issued.

Financial Inclusion

44. In 2010-11, "Swabhimaan" campaign was launched to extend banking facilities through Business Correspondents to habitations having population in excess of 2000. I am happy to announce that out of 73,000 identified habitations that were to be covered by March, 2012, about 70,000 habitations have been provided with banking facilities. With this, over 2.55 crore beneficiary accounts would have been operationalised. The remaining habitations are likely to be covered by March 31, 2012. As a next step, Ultra Small Branches are being set up at these habitations, where the Business Correspondents would deal with cash transactions.

45. In 2012-13, I propose to extend the "Swabhimaan" campaign to habitations with population of more than 1000 in North Eastern and hilly States and to other habitations which have crossed population of 2,000 as per Census 2011.

Regional Rural Banks

46. Regional Rural Banks (RRBs) have played a crucial role in meeting the credit needs of rural areas. I am happy to inform that of the 82 RRBs in India, 81 have successfully migrated to Core Banking Solutions (CBS) and have also joined the National Electronic Fund Transfer system.

47. The Government had initiated the process of capitalisation of 40 financially weak RRBs, which has been completed in respect of 12 RRBs by the end of February, 2012. I propose to extend the scheme of capitalisation of weak RRBs by another 2 years to enable all the States to contribute their share.

III. Infrastructure and Industrial Development

Let me now turn to infrastructure and industrial development.

48. Lack of adequate infrastructure is a major constraint on our growth. The strategy we have followed so far is to increase investment in infrastructure through a combination of public investment and public private partnerships (PPP). During the Twelfth Plan period, infrastructure investment will go up to ₹ 50 lakh crore. About half of this is expected to come from private sector.

49. Viability Gap Funding (VGF) under the Scheme for Support to PPP in infrastructure is an important instrument in attracting private investment into the sector. This year it has been decided to make irrigation (including dams, channels and embankments), terminal markets, common infrastructure in agriculture markets, soil testing laboratories and capital investment in fertiliser sector eligible for VGF under this scheme. Oil and Gas/LNG storage facilities and oil and gas pipelines, fixed network for telecommunication and telecommunication towers will also be made eligible sectors for VGF.

50. The Government has approved guidelines for establishing joint venture companies by defence Public Sector Undertakings in PPP mode. This will serve the dual purpose of achieving substantive self-reliance in the defence sector and production of state-of-the-art defence goods.

51. I had announced the setting up of Infrastructure Debt Funds to tap the overseas markets for long tenor pension and insurance funds. I am happy to inform the House that the first Infrastructure Debt Fund with an initial size of ₹8000 crore, has been launched earlier this month.

52. For the year 2011-12, tax-free bonds for ₹ 30,000 crore were announced for financing infrastructure projects. I propose to double it to raise ₹60,000 crore in 2012-13. This includes ₹10,000 crore for NHAI, ₹10,000 crore for IRFC, ₹10,000 crore for IIFCL, ₹5,000 crore for HUDCO, ₹5,000 crore for National Housing Bank, ₹5,000 crore for SIDBI, ₹5,000 crore for ports and ₹10,000 crore for power sector.

53. A harmonised master list of infrastructure sector has been approved by the Government. This will help in removing ambiguity in the policy and regulatory domain and encourage investment in the infrastructure sector.

54. To ease access of credit to infrastructure projects, India Infrastructure Finance Company Limited (IIFCL) has put in place a structure for credit enhancement and take-out finance. A consortium for direct lending and grant of in-principle approval to developers before the submission of bids for PPP projects has also been created.

National Manufacturing Policy

55. The Government has announced a National Manufacturing Policy on October 25, 2011 with the objective of raising, within a decade, the share of manufacturing in GDP to 25 per cent and creation of 10 crore jobs. The Policy encourages the setting-up of National Investment and Manufacturing Zones (NIMZs) across the country.

56. I will now address some issues that have impacted infrastructure and industrial activity in the past months.

Power and Coal

57. In power generation, fuel supply constraints are affecting production prospects. To address this concern, Coal India Limited (CIL) has been advised to sign fuel supply agreements, with power plants that have entered into long-term Power Purchase Agreements with DISCOMs and would get commissioned on or before March 31, 2015. An inter-ministerial group is being constituted to undertake periodic review of the allocated coal mines and make recommendations on de-allocations, if so required.

58. I propose to allow External Commercial Borrowings (ECB) to part finance Rupee debt of existing power projects.

Transport: Roads and Civil Aviation

59. The Ministry of Road Transport and Highways is set to achieve its target of awarding projects covering a length of 7,300 km under NHDP during 2011-12. This would be 44 per cent higher than the best ever length of 5,082 km awarded in 2010-11. Of the 44 projects awarded during 2011-12, 24 projects have fetched a premium. I propose to set a target of covering a length of 8,800 kms under NHDP next year. The allocation of the Ministry has been enhanced by 14 per cent to ₹ 25,360 crore in 2012-13.

60. To encourage public private partnerships in road construction projects, I propose to allow ECB for capital expenditure on the maintenance and operations of toll systems for roads and highways so long as they are a part of the original project.

61. The airline industry is facing financial crisis. The high operating cost of the sector is largely attributable to the cost of Aviation Turbine Fuel (ATF). To reduce the cost of ATF, Government has permitted direct import of ATF by Indian Carriers, as actual users.

62. To address the immediate financing concerns of the Civil Aviation sector, I propose to permit ECB for working capital requirements of the airline industry for a period of one year, subject to a total ceiling of US Dollar 1 billion.

63. A proposal to allow foreign airlines to participate up to 49 per cent in the equity of an air transport undertaking engaged in operation of scheduled and non-scheduled air transport services is under active consideration of the Government.

Delhi Mumbai Industrial Corridor

64. The Delhi Mumbai Industrial Corridor (DMIC) is being developed on either side along the alignment of the Western Dedicated Rail Freight Corridor. The project has made significant progress. In September 2011, Central assistance of ₹18,500 crore spread over a period of 5 years has been approved. The Japanese Prime Minister has announced US$ 4.5 billion as Japanese participation in DMIC project.

Housing sector

65. In view of the shortage of housing for low income groups in major cities and towns, I propose to:

- Allow ECB for low cost affordable housing projects;
- Set up Credit Guarantee Trust Fund to ensure better flow of institutional credit for housing loans;
- Enhance provisions under Rural Housing Fund from ₹ 3000 crore to ₹ 4000 crore;
- Extend the scheme of interest subvention of 1 per cent on housing loan up to ₹15 lakh where the cost of the house does not exceed ₹25 lakh for another year; and
- Enhance the limit of indirect finance under priority sector from ₹ 5 lakh to ₹ 10 lakh.

Fertilisers

66. To reduce India's import dependence in urea, Government has taken steps to finalise pricing and investment policies for urea. It is expected that with the implementation of the investment policy, country will become self sufficient in manufacturing urea in the next five years. In case of the potassic-phosphatic (P&K) fertiliser, use of single super phosphate (SSP) will be encouraged through greater extension work. This fertiliser is manufactured entirely in the domestic sector. Enhanced production would bring down our dependence on imports in the P&K sector.

Textiles

67. The Government has recently announced a financial package of ₹ 3,884 crore for waiver of loans of handloom weavers and their cooperative societies.

68. In addition to 4 mega handloom clusters already operationalised, I am now happy to announce two more mega clusters, one to cover Prakasam and Guntur districts in Andhra Pradesh and the other for Godda and neighbouring districts in Jharkhand. I also propose to provide assistance in setting up of dormitories for women workers in the 5 mega clusters relating to handloom, power loom and leather sectors.

69. The Ministry of Textiles runs Weavers' Service Centres in different parts of the country for providing technical support to poor handloom weavers. I propose to set up three such Centres, one each in Mizoram, Nagaland and Jharkhand. I am also happy to announce ₹ 500 crore pilot scheme in the Twelfth Plan for promotion and application of Geo-textiles in the North East Region.

70. To address the need of the local artisans and weavers, I propose to set up a powerloom mega cluster in Ichalkaranji in Maharashtra with a Budget allocation of ₹ 70 crore.

Micro, Small and Medium Enterprises

71. In order to enhance availability of equity to MSME sector, I propose to set up a ₹ 5,000 crore India Opportunities Venture Fund with SIDBI.

72. The Small and Medium Enterprises (SMEs) are the building blocks of our economy. They rely primarily on loans from banks and informal sources to raise capital. To enable these enterprises greater access to finance, two SME exchanges have been launched in Mumbai recently.

Public Procurement Policy for Micro and Small Enterprises

73. With the objective of promoting market access of Micro and Small Enterprises, Government has approved a policy which requires Ministries and CPSEs to make a minimum of 20 per cent of their annual purchases from MSEs. Of this, 4 per cent will be earmarked for procurement from MSEs owned by SC/ST entrepreneurs.

IV. Agriculture

I now take up agriculture.

74. Agriculture will continue to be a priority for the Government. The total plan outlay for the Department of Agriculture and Cooperation is being increased by 18 per cent from ₹ 17,123 crore in 2011-12 to ₹ 20,208 crore in 2012-13.

75. The outlay for Rashtriya Krishi Vikas Yojana (RKVY) is being increased from ₹7,860 crore in 2011-12 to ₹ 9,217 crore in 2012-13. I am happy to inform the House that the initiative of Bringing Green Revolution to Eastern India (BGREI) has resulted in a significant increase in production and productivity of paddy. States in eastern India have reported additional paddy production of seven million tonnes in Kharif 2011. I propose to increase the allocation for this scheme from ₹400 crore in 2011-12 to ₹1000 crore in 2012-13.

76. This year, under RKVY, I also propose to allocate ₹300 crore to Vidarbha Intensified Irrigation Development Programme. This Scheme seeks to bring in more farming areas under protective irrigation.

77. The Government intends to merge the remaining activities into a set of missions to address the needs of agricultural development in the Twelfth Five Year Plan. These Missions are:

(i) *National Food Security Mission* which aims to bridge the yield gap in respect of paddy, wheat, pulses, millet and fodder. The ongoing Integrated Development of Pulses Villages, Promotion of Nutri-cereals and Accelerated Fodder Development Programme would now become a part of this Mission;

(ii) *National Mission on Sustainable Agriculture including Micro Irrigation* is being taken up as a part of the National Action Plan on Climate Change. The Rainfed Area Development Programme will be merged with this;

(iii) *National Mission on Oilseeds and Oil Palm* aims to increase production and productivity of oil seeds and oil palm;

(iv) *National Mission on Agricultural Extension and Technology* focuses on adoption of appropriate technologies by farmers for improving productivity and efficiency in farm operations; and

(v) *National Horticulture Mission* aims at horticulture diversification. This will also include the initiative on saffron.

National Mission for Protein Supplement

78. Mission for Protein Supplement is being strengthened. To improve productivity in the dairy sector, a ₹2,242 crore project is being launched with World Bank assistance. To broaden the scope of production of fish to coastal aquaculture, apart from fresh water aquaculture, the outlay in 2012-13 is being stepped up to ₹500 crore. Suitable allocations are also being made for poultry, piggery and goat rearing.

Agriculture Credit

79. Farmers need timely access to affordable credit. I propose to raise the target for agricultural credit in 2012-13 to ₹5,75,000 crore. This represents an increase of ₹ 1,00,000 crore over the target for the current year.

80. The interest subvention scheme for providing short term crop loans to farmers at 7 per cent interest per annum will be continued in 2012-13. An additional subvention of 3 per cent will be available to prompt paying farmers. In addition, the same interest subvention on post harvest loans up to six months against negotiable warehouse receipt will also be available. This will encourage the farmers to keep their produce in warehouses.

81. A Short term RRB Credit Refinance Fund is being set-up to enhance the capacity of Regional Rural Banks to disburse short term crop loans to the small and marginal farmers. I propose to allocate ₹ 10,000 crore to NABARD for refinancing the RRBs through this fund.

82. Kisan Credit Card (KCC) is an effective instrument for making agricultural credit available to the farmers. KCC scheme will be modified to make KCC a smart card which could be used at ATMs.

Agricultural Research

83. Food security and agricultural development in the coming decades would depend upon scientific and technological breakthroughs in raising productivity. We have to develop plant and seed varieties that yield more and can resist climate change. I propose to set aside a sum of ₹ 200 crore for incentivising research with rewards, both for institutions and the research team responsible for such scientific breakthroughs.

Irrigation

84. Unless we recognise water as a resource, the day is not far when water stress will start threatening our agricultural production. Focus on micro irrigation schemes to dovetail these with water harvesting schemes is necessary. To maximise the flow of benefits from investments in irrigation projects, structural changes in Accelerated Irrigation Benefit Programme (AIBP) are being made. The allocation for AIBP in 2012-13 is being stepped up by 13 per cent to ₹14,242 crore.

85. To mobilise large resources to fund irrigation projects, a Government owned Irrigation and Water Resource Finance Company is being operationalised. The Company would start its operations in 2012-13 by focusing on financing sub-sectors like micro-irrigation, contract farming, waste water management and sanitation.

86. A flood management project for Kandi sub-division of Murshidabad District has been approved by the Ganga Flood Control Commission at a cost of ₹ 439 crore, to be taken up for funding under the Flood Management Programme.

National Mission on Food Processing

87. The food processing sector has been growing at an average rate of over 8 per cent over the past 5 years. In order to have a better outreach and to provide more flexibility to suit local needs, it has been decided that a new centrally sponsored scheme titled "National Mission on Food Processing" would be started, in cooperation with the State Governments in 2012-13.

88. The Government has taken steps to create additional foodgrain storage capacity in the country. Creation of 2 million tonnes of storage capacity in the form of modern silos has already been approved. Nearly 15 million tonnes capacity is being created under the Private Entrepreneur's Guarantee Scheme, of which 3 million tonnes of storage capacity will be added by the end of 2011-12 and 5 million would be added next year.

V. Inclusion

Let me now take up proposals for inclusive development.

Scheduled Castes and Tribal Sub Plans

89. From the year 2011-12, allocations are being made for Scheduled Castes Sub Plan (SCSP) and Tribal Sub Plan (TSP) under separate minor heads as part of the Plan allocations. In 2012-13, the allocation for SCSP is ₹37,113 crore which represents an increase of 18 per cent over 2011-12. The allocation for TSP in 2012-13 is ₹21,710 crore representing an increase of 17.6 per cent over 2011-12.

Food Security

90. Our Government has taken definite steps to create food security at the household level by making food a legal entitlement for all targeted people, especially for the poor and vulnerable segments of our population. The National Food Security Bill, 2011 is before the Parliamentary Standing Committee.

91. To ensure that the objectives of the National Food Security Bill are effectively realised, a Public Distribution System Network is being created using the Aadhaar platform. A National Information Utility for the computerisation of PDS is being created. It will become operational by December 2012.

Multi-sectoral Nutrition Augmentation Programme

92. Following the decision taken in the Prime Minister's National Council on India's Nutritional Challenges, a multi-sectoral programme to address maternal and child malnutrition in selected 200 high burden districts is being rolled out during 2012-13. It will harness synergies across nutrition, sanitation, drinking water, primary health care, women education, food security and consumer protection schemes.

93. In this context, Integrated Child Development Services (ICDS) scheme is being strengthened and re-structured. For 2012-13, an allocation of ₹15,850 crore has been made as against ₹10,000 crore in 2011-12. This amounts to an increase of over 58 per cent.

94. National Programme of Mid Day Meals in Schools has enhanced enrolment, retention, attendance, and also helped in improving nutrition levels among children. In 2012-13, I propose to allocate ₹11,937 crore for this scheme as against ₹10,380 crore in 2011-12.

95. Rajiv Gandhi Scheme for Empowerment of Adolescent Girls, SABLA, has been introduced last year with a view to address the nutritional needs and other educational and skill development initiatives for self development of adolescent girls in the age group of 11 to 18 years. For 2012-13, an allocation of ₹750 crore has been proposed for the scheme.

Rural Development and Panchayati Raj

96. Along with water quality, poor sanitation is one of the factors contributing to malnourishment. Hon'ble Members will be happy to know that I propose to increase the budgetary allocation for rural drinking water and sanitation from ₹11,000 crore in 2011-12 to ₹14,000 crore in 2012-13. This is an increase of over 27 per cent.

97. Pradhan Mantri Gram Sadak Yojana (PMGSY) has been a successful programme. In 2012-13, I propose to raise the allocation by 20 per cent to this scheme by providing ₹24,000 crore. It will accelerate connectivity in the States.

98. A major initiative has been proposed to strengthen Panchayats across the country through the Rajiv Gandhi Panchayat Sashaktikaran Abhiyan (RGPSA). This programme will expand on the existing schemes for Panchayat capacity building.

99. In my Budget Speech last year, I had referred to our focus on the development of backward regions. We have decided to carry the Backward Regions Grant Fund scheme into the Twelfth Plan with an enhanced allocation of ₹12,040 crore in 2012-13, an increase of about 22 per cent over BE of 2011-12. This includes the State component which covers projects in backward areas in Bihar, West Bengal and the Kalahandi-Bolangir-Koraput region of Odisha, development projects for drought mitigation in the Bundelkhand region and projects under the Integrated Action Plan to accelerate the pace of development in selected tribal and backward districts.

Rural Infrastructure Development Fund

100. This year, I propose to enhance the allocation under Rural Infrastructure Development Fund (RIDF) to ₹ 20,000 crore. Further in view of the warehousing shortage in the country, I propose to earmark an amount of ₹ 5,000 crore from the above allocation exclusively for creating warehousing facilities under RIDF.

Education

101. The Right to Education (RTE) Act is being implemented with effect from April 1, 2010 through the Sarva Shiksha Abhiyan (SSA). For 2012-13, I have provided ₹25,555 crore for RTE-SSA. This is an increase of 21.7 per cent over 2011-12.

102. In the Twelfth Plan, 6,000 schools have been proposed to be set up at block level as model schools to benchmark excellence. Of these, 2500 will be set up under Public Private Partnership.

103. The Rashtriya Madhyamik Shiksha Abhiyan (RMSA) was launched in March, 2009 to enhance access to quality secondary education. In 2012-13, I have allocated ₹3,124 crore for RMSA which is nearly 29 per cent higher than the allocation in 2011-12.

104. A scheme for education loans is being implemented by banks. To ensure better flow of credit to deserving students, I propose to set up a Credit Guarantee Fund for this purpose.

Health

105. They say persistence pays. I am happy to inform Hon'ble Members that no new case of polio was reported in the last one year. By modernising existing units and setting up a new integrated vaccine unit near Chennai, the Government will achieve vaccine security and keep the pressure on disease eradication and prevention.

106. National Rural Health Mission (NRHM) is being implemented through 'Accredited Social Health Activist'- 'ASHA'. The scope of ASHA's activities is being enlarged to include prevention of Iodine Deficiency Disorders, ensure 100 per cent immunisation and better spacing of children. At the community level, a more active role is envisaged for ASHA as the convenor of the Village Health and Sanitation Committee, as also to support the initiative on malnutrition. Since ASHAs receive activity-wise, performance-based payments, this will also enhance their remuneration. I propose to increase the allocation to NRHM from ₹18,115 crore in 2011-12 to ₹20,822 crore in 2012-13.

107. National Urban Health Mission is being launched to encompass the primary healthcare needs of people in the urban areas. The Pradhan Mantri Swasthya Suraksha Yojana (PMSSY) aimed at setting up of AIIMS-like institutions and upgradation of existing Government medical colleges is being expanded to cover upgradation of 7 more Government medical colleges. It will enhance the availability of affordable tertiary health care.

Employment and Skill Development

108. The Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) has had a positive impact on livelihood security. For the first time, there is an effective floor wage rate for rural workers. Distress migration has come down. Community assets have been created. Productivity of barren and fallow lands has gone up. The need for improving quality of assets and bringing about greater synergy between MG-NREGA and agriculture and allied rural livelihoods is being addressed.

109. The Swarnjayanti Gram Swarozgar Yojana (SGSY) has been restructured into National Rural Livelihood Mission (NRLM) to provide self-employment opportunities. A sub-component, Mahila Kisan Sashaktikaran Pariyojana, under NRLM seeks to provide better targeting of women farmers. For NRLM, I propose to increase the allocation by over 34 per cent from ₹2,914 crore in 2011-12 to ₹3,915 crore in 2012-13.

110. In last year's Budget I had announced creation of a 'Women's SHG's Development Fund'. This has been set up in NABARD. In 2012-13, I propose to provide ₹ 200 crore to enlarge the corpus to ₹ 300 crore. This Fund will also support the objectives of Aajeevika i.e. the National Rural Livelihood Mission. It will empower women SHGs to access bank credit. I propose to provide interest subvention to Women SHGs to avail loans up to ₹3 lakh at 7 per cent per annum. Women SHGs that repay loans in time will get additional 3 per cent subvention, reducing the effective rate to 4 per cent. The initiative, in the first phase, would focus on selected 600 Blocks of 150 districts, including the Left Wing Extremism affected districts.

111. It is proposed to establish a Bharat Livelihoods Foundation of India through Aajeevika. The Foundation would support and scale up civil society initiatives and interventions particularly in the tribal regions covering around 170 districts. Private trusts and philanthropic organisations would be encouraged to partner with the autonomous body that will be managed professionally.

112. To encourage micro enterprises, a credit linked subsidy programme namely Prime Minister's Employment Generation Programme (PMEGP) is being implemented through KVIC. The allocation for this programme has been increased by 23 per cent from ₹1,037 crore in 2011-12 to ₹1,276 crore in 2012-13.

Skill Development

113. In 2011-12 National Skill Development Corporation (NSDC) approved 26 new projects, thereby doubling the number of projects sanctioned since 2009 to 52, with a total funding commitment of ₹ 1,205 crore. At the end of 10 years, these projects are expected to train 6.2 crore persons and augment vocational training capacity by 1.25 crore per year in the private sector.

114. The NSDC partners have opened 496 permanent and 2429 mobile centres in 220 districts across 24 states. More than 89,500 persons have been trained and almost 80 per cent employed. Under NSDC, 10 Sector Skill Councils have been sanctioned. Of these, 3 Skill Councils for Automobile, Security and Retail sectors have become operational. For 2012-13, I propose to allocate ₹ 1000 crore to National Skill Development Fund (NSDF).

115. In order to improve the flow of institutional credit for skill development, I propose to set up separate Credit Guarantee Fund. This will benefit youth in acquiring market oriented skills.

116. A new scheme titled "Himayat" was introduced in Jammu and Kashmir from 2011-12. It aims to provide skill training to one lakh youth in the next five years. The entire cost of this programme is being borne by the Centre.

Social security and the needs of weaker sections

117. I am raising the allocation under the National Social Assistance Programme (NSAP) by 37 per cent from ₹ 6,158 crore in 2011-12 to ₹ 8,447 crore in 2012-13. Under the ongoing Indira Gandhi National Widow Pension Scheme and Indira Gandhi National Disability Pension Scheme for BPL beneficiaries, the monthly pension amount per person is being raised from ₹ 200 to ₹ 300.

118. On the death of the primary breadwinner of a BPL family, in the age group 18 to 64 years, a lumpsum grant of ₹10,000 is presently provided under the National Family Benefit scheme. I propose to double this amount to ₹ 20,000 and expect a matching contribution by the State Governments.

119. In order to promote voluntary savings towards pensions, a co-contributory scheme SWAVALAMBAN was started in September, 2010. Over 5 lakh subscribers have been enrolled by February 2012. In order to enhance access to this scheme, LIC has been appointed as an Aggregator and all Public Sector Banks have also been appointed as Points of Presence (PoP) and Aggregators.

Institutions that are being given grants

120. The driving force of a modern nation is research and the creation of new knowledge. With this in mind I propose to provide:

- ₹ 25 crore to the Institute of Rural Management, Anand;
- ₹ 50 crore to establish a world-class centre for water quality with focus on arsenic contamination in Kolkata;
- ₹ 100 crore to Kerala Agricultural University;
- ₹ 50 crore for University of Agricultural Sciences Dharwad, Karnataka;
- ₹ 50 crore to Chaudhary Charan Singh Haryana Agricultural University, Hissar;
- ₹ 50 crore to Orissa University of Agriculture and Technology;
- ₹ 100 crore to Acharya N. G. Ranga Agricultural University in Hyderabad;
- ₹ 15 crore to National Council for Applied Economic Research;
- ₹ 10 crore to Rajiv Gandhi University, Department of Economics, Itanagar; and
- ₹ 10 crore to Siddharth Vihar Trust Gulbarga, to establish a Pali language Research Centre.

Security

121. In the Budget for 2012-13, a provision of ₹ 1,93,407 crore has been made for Defence Services which include ₹79,579 crore for capital expenditure. As always, this allocation is based on present needs and any further requirement would be met.

122. Government is making efforts to increase the availability of residential quarters to forces. In 2012-13, it is envisaged to construct nearly 4,000 residential quarters for Central Armed Police Forces for which ₹ 1,185 crore is proposed to be allocated. A provision of ₹ 3,280 crore for 2012-13 has also been made for construction of office buildings including land acquisition and barracks to accommodate 27,000 personnel.

123. The scheme to create the National Population Register (NPR) is progressing well. It is likely to be completed within the next two years. The Government is also considering a proposal of issuing Resident Identity Cards bearing the Aadhaar numbers to all residents who are of age 18 years and above to help in the e-governance initiatives.

VI. Governance

I now address some concerns in governance.

UID-Aadhaar

124. The enrolments into the Aadhaar system have crossed 20 crore and the Aadhaar numbers generated upto date have crossed 14 crore. I propose to allocate adequate funds to complete another 40 crore enrolments starting from April 1, 2012. The Aadhaar platform is now ready to support the payments of MG-NREGA; old age, widow and disability pensions; and scholarships directly to the beneficiary accounts in selected areas.

Black Money

125. Last year I had outlined a five pronged strategy to tackle the malaise of generation and circulation of black money and its illegitimate transfer outside India. Government has taken a number of proactive steps to implement this strategy. As a result:

- 82 Double Taxation Avoidance Agreements (DTAA) and 17 Tax Information Exchange Agreements (TIEA) have been finalised and information regarding bank accounts and assets held by Indians abroad has started flowing in. In some cases prosecution will be initiated;
- Dedicated exchange of information cell for speedy exchange of tax information with treaty countries is fully functional in CBDT;
- India became the 33rd signatory of the Multilateral Convention on Mutual Administrative Assistance in Tax Matters; and
- Directorate of Income Tax Criminal Investigation has been established in CBDT.

126. I propose to lay on the table of the House a white paper on Black Money in the current session of Parliament.

Public Procurement Legislation

127. Government is committed to the enactment of a Public Procurement legislation to enhance confidence in public procurement and to ensure transparency and efficiency in the process. The Bill in this regard is to be introduced in the Budget session of the Parliament.

128. The following legislative measures for strengthening anti-corruption framework are in various stages of enactment:

- Prevention of Money Laundering (Amendment) Bill, 2011 introduced in Parliament with a view to bring certain provisions of the Act in line with global standards;
- Benami Transactions (Prohibition) Bill, 2011 is currently being examined by the Standing Committee on Finance. It would replace the 'Benami Transactions (Prohibition) Act, 1988'; and
- National Drugs and Psychotropic Substances (Amendment) Bill, 2011 introduced in Parliament with a view to strengthen legal provisions for implementation of the national policy on Narcotic Drugs and Psychotropic Substances.

VII. Budget Estimates 2012-13

I now turn to the Budget Estimates for 2012-13.

129. The Gross Tax Receipts are estimated at ₹ 10,77,612 crore which is an increase of 15.6 per cent over the Budget Estimates and 19.5 per cent over the Revised Estimates for 2011-12. As a percentage of GDP, gross taxes are estimated at 10.6 per cent in BE 2012-13 as against 10.4 per cent in BE 2011-12. After devolution to States, the net tax to Centre in 2012-13 is estimated at ₹ 7,71,071 crore. The Non Tax Revenue Receipts for 2012-13 are estimated at ₹ 1,64,614 crore and Non-debt Capital Receipts at ₹ 41,650 crore. The temporary arrangement to use disinvestment proceeds for capital expenditure in social sector schemes is being extended for one more year to 2012-13.

130. The total expenditure for 2012-13 is budgeted at ₹ 14,90,925 crore. Of this, the Plan Expenditure for 2012-13 is ₹ 5,21,025 crore, which is 18 per cent higher than the Budget Estimates of 2011-12. This is higher than the 15 per cent increase projected in the Approach to the Twelfth Plan for 2012-13. I am happy to inform the Hon'ble Members that in the Eleventh Plan, we have been able to meet 99 per cent of the total plan outlay.

131. The Non Plan Expenditure for 2012-13 is budgeted at ₹ 9,69,900 crore which is 8.7 per cent higher than the Revised Estimates for 2011-12 and 18.8 per cent higher than the Budget Estimates for 2011-12. This increase is mainly on account of higher provision for major subsidies. While making adequate provisions for funding the desirable subsidies, as indicated earlier, I am determined to contain the increasing subsidy burden through measures including improved targeting.

132. The Plan and Non Plan resources transferred to States and Union Territories including direct transfers to State and district level implementing agencies are ₹ 3,65,216 crore in BE 2012-13. This includes ₹ 18,655 crore of grant to local bodies as per the recommendations of Thirteenth Finance Commission.

133. The year 2011-12 was one of challenges for fiscal management. Due to the slower economic growth, direct tax collection fell short by ₹ 32,000 crore of the Budget Estimates. At the same time, the Government absorbed duty reduction in petroleum sector with annual revenue loss of ₹ 49,000 crore. The Government had to incur higher expenditure on petroleum and fertiliser subsidy to insulate the people from the rising prices. While the outgo on account of subsidies increased, I have ensured that the entire amount is given in cash and not as bonds in lieu of subsidies. This is in line with the approach that I outlined in my Budget Speech for 2010-11.

134. The combined effect of lower tax and disinvestment receipts and higher expenditure, mainly on account of subsidies, has pushed the fiscal deficit to 5.9 per cent of GDP in the Revised Estimates for 2011-12. However, I have made a determined attempt to come back to the path of fiscal consolidation in the Budget for 2012-13 by pegging the fiscal deficit at ₹ 5,13,590 crore which is 5.1 per cent of GDP. After taking into account other items of financing, the net market borrowings through dated securities to finance this deficit is ₹ 4.79 lakh crore. With this, the total Debt stock at the end of 2012-13 would work out at 45.5 per cent of GDP as compared to the Thirteenth Finance Commission target of 50.5 per cent of GDP. The Effective Revenue Deficit in BE 2012-13 works out to ₹ 1,85,752 crore which is 1.8 per cent of GDP.

Part B

VIII. Tax Proposals

Madam Speaker,

I now come to Part B of my proposals.

135. The life of a Finance Minister is not easy. Various players, including policy makers, politicians, agriculturists and business houses, participate in the making of the economy. When everything goes well with the economy, we all share in the joy. However, when things go wrong, it is the Finance Minister who is called upon to administer the medicine. Economic policy, as in medical treatment, often requires us to do something, which, in the short run, may be painful, but is good for us in the long run. As Hamlet, the Prince of Denmark, had said in Shakespeare's immortal words, "I must be cruel only to be kind."

With this reminder, let me now turn to the tax proposals.

136. Last year, I had set the compass for movement towards the DTC in Direct Taxes and GST in Indirect Taxes. My tax proposals for fiscal year 2012-13 mark further progress in that direction.

Direct Taxes

I shall now deal with direct taxes.

137. Last year I provided relief to individual taxpayers by enhancing the exemption limit as a move towards DTC rates. Although DTC will not be effective from this year, I propose to introduce the DTC rates for personal income tax. I propose to enhance the exemption limit for the general category of individual taxpayers from ₹1,80,000 to ₹2,00,000. This measure will provide tax relief upto ₹2,000 to every taxpayer of this category. I also propose to raise the upper limit of the 20 per cent tax slab from ₹8 lakh to ₹10 lakh. The proposed personal income tax slabs are:

Income upto ₹2 lakh	Nil
Income above ₹2 lakh and upto ₹5 lakh	10 per cent
Income above ₹5 lakh and upto ₹10 lakh	20 per cent
Income above ₹10 lakh	30 per cent

These changes will provide substantial relief to taxpayers.

138. I propose to allow individual taxpayers, a deduction of upto ₹10,000 for interest from savings bank accounts. This would help a large number of small taxpayers with salary incomes upto ₹5 lakh and interest from savings bank accounts up to ₹ 10,000, as they would not be required to file income tax returns.

139. Within the existing limit for deduction allowed for health insurance, I propose to allow a deduction of upto ₹5,000 for preventive health check-up.

140. Senior citizens who do not have any income from business are proposed to be exempted from the payment of advance tax. This will reduce their compliance burden.

141. In the case of corporates, I am not proposing any change in the tax rates. However, I propose certain measures to allow corporates to access lower cost funds and to promote higher level of investments in several sectors.

142. In order to provide low cost funds to some stressed infrastructure sectors, the rate of withholding tax on interest payments on external commercial borrowings is proposed to be reduced from 20 per cent to 5 per cent for three years. These sectors are:

- power;
- airlines;
- roads and bridges;
- ports and shipyards;
- affordable housing;
- fertilizer; and
- dams

143. The restriction on Venture Capital Funds to invest only in nine specified sectors is proposed to be removed. It is further proposed to remove the cascading effect of Dividend Distribution Tax (DDT) in a multi-tier corporate structure. I also propose to continue to allow repatriation of dividends from foreign subsidiaries of Indian companies to India at a lower tax rate of 15 per cent as against the tax rate of 30 per cent for one more year i.e. upto March 31, 2013.

144. Investment linked deduction of capital expenditure incurred in the following businesses is proposed to be provided at the enhanced rate of 150 per cent, as against the current rate of 100 per cent.

- Cold chain facility
- Warehouses for storage of food grains
- Hospitals
- Fertilisers
- Affordable housing

145. The following new sectors are proposed to be added for the purposes of investment linked deduction:

- bee keeping and production of honey and beeswax
- container freight station and inland container depots
- warehousing for storage of sugar

146. To promote investment in research and development, it is proposed to extend the weighted deduction of 200 per cent for R&D expenditure in an in-house facility beyond March 31, 2012 for a further period of five years.

147. I also propose to provide weighted deduction of 150 per cent on expenditure incurred for agri-extension services in order to facilitate growth in the agriculture sector.

148. For the power sector, besides access to low cost funds as outlined above, I also propose extension of the sunset date by one year for power sector undertakings so that they can be set up on or before March 31, 2013 for claiming 100 per cent deduction of profits for 10 years. Additional depreciation of 20 per cent in the initial year is proposed to be extended to new assets acquired by power generation companies.

149. For SMEs, the turnover limit for compulsory tax audit of accounts as well as for presumptive taxation is proposed to be raised from ₹60 lakh to ₹ 1 crore.

150. In order to augment funds for SMEs, I propose to exempt capital gains tax on sale of a residential property, if the sale consideration is used for subscription in equity of a manufacturing SME company for purchase of new plant and machinery.

151. Considering the shortage of skilled manpower in the manufacturing sector and to generate employment, I propose to provide weighted deduction at the rate of 150 per cent of expenditure incurred on skill development in manufacturing sector in accordance with specified guidelines.

152. In order to reduce transaction costs in the capital markets, I propose reduction in Securities Transaction Tax (STT) by 20 per cent (from 0.125 per cent to 0.1 per cent) on cash delivery transactions.

153. In order to moderate the outgo on profit linked deductions, I propose to extend the levy of Alternate Minimum Tax (AMT) on all persons other than companies, claiming profit linked deductions.

154. I propose to introduce a General Anti Avoidance Rule (GAAR) in order to counter aggressive tax avoidance schemes, while ensuring that it is used only in appropriate cases, by enabling a review by a GAAR panel.

155. I propose a series of measures to deter the generation and use of unaccounted money. To this end, I propose

- Introduction of compulsory reporting requirement in case of assets held abroad.
- Allowing for reopening of assessment upto 16 years in relation to assets held abroad.

- Tax collection at source on purchase in cash of bullion or jewellery in excess of ₹ 2 lakh.
- Tax deduction at source on transfer of immovable property (other than agricultural land) above a specified threshold.
- Tax collection at source on trading in coal, lignite and iron ore.
- Increasing the onus of proof on closely held companies for funds received from shareholders as well as taxing share premium in excess of fair market value.
- Taxation of unexplained money, credits, investments, expenditures etc., at the highest rate of 30 per cent irrespective of the slab of income.

156. My proposals on Direct Taxes are estimated to result in a net revenue loss of ₹ 4500 crore for the year.

Indirect Taxes

157. I shall now turn to indirect taxes. In a slight departure from the previous years, I shall begin with Service Tax.

Service Tax

158. At the end of June this year, this tax will attain adulthood by completing 18 years. It is therefore time to shift gears and accelerate ahead. However, service tax needs to confront two important challenges to sustain the journey. These are:

- The share of services in taxes remains far below its potential. There is a need to widen the tax base and strengthen its enforcement;
- Service Tax law is complex and sometimes avoidably different from Central Excise. We need to bring the two as close as possible in the light of our eventual goal of transition to GST.

I have attempted to address both these issues this year.

159. Last year, I had initiated a public debate on the desirability of moving towards taxation of services based on a negative list. In the debate that continued for the better part of the year, we received overwhelming support for this new concept. It has been perceived both as sound economics and prudent fiscal management.

160. Thus, I propose to tax all services except those in the negative list. The list comprises 17 heads and has been carefully drawn up, keeping in view the federal nature of our polity, the best international practices and our socio-economic requirements.

161. The important inclusions in the negative list comprise all services provided by the government or local authorities, except a few specified services where they compete with private sector. The list also includes pre-school and school education, recognised education at higher levels and approved vocational education, renting of residential dwellings, entertainment and amusement services and a large part of public transportation including inland waterways, urban railways and metered cabs.

162. Agriculture and animal husbandry enjoy a very important place in our lives. Practically all services required for cultivation, breeding, production, processing or marketing up to the stage the produce is sold in the primary markets are covered by the list.

163. In addition to the negative list, there is a list of exemptions which include health care, services provided by charities, religious persons, sportspersons, performing artists in folk and classical arts, individual advocates providing services to non-business entities, independent journalists, and services by way of animal care or car parking.

164. To take financial services to the door steps in rural areas, I have also exempted the services of business facilitators and correspondents to banks and insurance companies.

165. Construction services relating to specified infrastructure, canals, irrigation works, post-harvest infrastructure, residential dwelling, and low-cost mass housing up to an area of 60 sq. mtr. under the Scheme of Affordable Housing in Partnership are also included in the exemptions. To make the life of those who already own an apartment a little easier, I propose to raise the exemption for the monthly charges payable by a member to a housing society from ₹ 3,000 to ₹5,000.

166. The Year 2012 marks the beginning of the centenary year of Indian cinema. Despite the change in titles from Dada Saheb Phalke's "Raja Harishchandra" to "Ra. One" in recent times, the industry has played a pivotal role in unifying our country in the wake of her considerable diversity. To add to their spirit of celebration, I propose to exempt the industry from service tax on copyrights relating to recording of cinematographic films.

167. Movement towards the negative list will result in reducing nearly 290 definitions and descriptions in the Act to 54, and the exemptions from the existing 88 to 10, of course merging some of the existing exemptions into a revised notification. In terms of number of pages, the law will be shorter by nearly 40 per cent.

168. As a measure of harmonisation between Central Excise and Service Tax, a number of alignments have been made. These include a common simplified registration form and a common return for Central Excise and Service Tax, to be named EST-1. This common return will comprise only one page, which will be a significant reduction from the 15 pages of the two returns at present.

169. Revision Application Authority and Settlement Commission are being introduced in Service Tax to help resolve disputes with far greater ease.

170. Cascading of taxes has been significantly reduced by permitting utilisation of input tax credits in a number of services such as catering, restaurants, hotel accommodation, pandal and shamiana and transport sectors.

171. Place of Supply Rules, that will determine the location where a service shall be deemed to be provided, are being placed in public domain for stakeholders' comments and shall be notified when the negative list is put into effect. These rules will also provide a possible backdrop to initiate an informed debate to assess all the issues that may arise in the taxation of inter-state services for the eventual launch of GST.

172. I propose to set up a Study Team to examine the possibility of a common tax code for service tax and central excise which could be adopted to harmonise the two legislations as much as possible at the right time.

173. While the problems faced by exporters of goods with respect to taxes on input services was addressed earlier this year, disbursement of taxes that go into the export of services has been an irritant for long. I now announce a new scheme that will simplify refunds without resorting to voluminous documentation or verification. As an added incentive, such refunds will also be admissible for taxes on taxable services that have been exempted.

174. Rules pertaining to the Point of Taxation are also being rationalised, providing greater clarity and removing the irritants. Cenvat credits in a number of areas are being restored. There are a number of other proposals both for the facilitation of business and to check malpractices. I do not wish to take the valuable time of this House for discussing all these proposals.

175. You will notice that most of these measures are guided by the need to move towards a system that is simple, equitable and progressive but are unlikely to make the exchequer richer in any significant way. Looking at our vast commitments and to maintain a healthy fiscal situation, I propose to raise the service tax rate from 10 per cent to 12 per cent, with consequential changes in rates for services that have individual tax rates.

176. My proposals from service tax are expected to yield an additional revenue of ₹ 18,660 crore. Keeping in mind that the share of services in GDP is 59 per cent, you would agree that the proposed increase is not too harsh.

I shall now deal with proposals relating to the other indirect taxes.

177. In the wake of the global financial crisis in 2008-09, the standard rate of excise duty for non-petroleum goods was reduced from 14 per cent to 8 per cent in a phased manner. This rate was raised from 8 per cent to 10 per cent in Budget

2010-11. Given the imperative for fiscal correction, I propose to now raise the standard rate from 10 per cent to 12 per cent, the merit rate from 5 per cent to 6 per cent, and the lower merit rate from 1 per cent to 2 per cent. However, the lower merit rate for coal, fertilisers, mobile phones and precious metal jewellery is being retained at 1 per cent.

178. Large cars currently attract excise duty depending on their engine capacity and length. In keeping with the increase proposed in the standard rate, I propose to enhance the duty from 22 per cent to 24 per cent. In the case of cars that attract a mixed rate of duty of 22 per cent + ₹15000 per vehicle, I propose to increase the duty and switch over to an *ad valorem* rate of 27 per cent.

179. No change is proposed in the peak rate of customs duty of 10 per cent on non-agricultural goods. Barring a few individual items, the rates below the peak are also being retained.

180. I shall now take up relief proposals for specific sectors – especially those under stress. These have been formulated to stimulate investment and manufacturing growth.

Agriculture & Related Sectors

181. Carrying forward the initiatives taken for agriculture and agro-processing in the previous Budgets, I propose:

- to reduce basic customs duty from 7.5 per cent to 2.5 per cent on:
    - ☐ sugarcane planter, root or tuber crop harvesting machine and rotary tiller and weeder;
    - ☐ parts for the manufacture of these;
- to reduce basic customs duty from 7.5 per cent to 5 per cent on specified coffee plantation and processing machinery;
- to extend project import benefit to green house and protected cultivation for horticulture and floriculture at concessional basic customs duty of 5 per cent;
- to reduce basic customs duty on some water soluble fertilisers and liquid fertilisers, other than urea, from 7.5 per cent to 5 per cent and from 5 per cent to 2.5 per cent;
- to extend concessional import duty available for installation of Mechanised Handling Systems and Pallet Racking Systems in mandis or warehouses for horticultural produce.

182. Imports of equipment for initial setting up or substantial expansion of fertiliser projects are being fully exempted from basic customs duty of 5 per cent for a period of three years up to March 31, 2015.

Infrastructure

183. In the realm of infrastructure my proposals address some weaknesses in the troika of power, coal and railways.

184. Domestic producers of thermal power have been under stress because of high prices of coal. I propose to ease the situation by providing full exemption from basic customs duty and a concessional CVD of 1 per cent to Steam coal for a period of two years till March 31, 2014. Full exemption from basic duty is also being provided to the following fuels for power generation:

- Natural Gas and Liquified Natural Gas; and
- Uranium concentrate, Sintered Uranium Dioxide in natural and pellet form.

Mining

185. Better surveying and prospecting for minerals are essential for improving the productivity and efficiency of our mining sector. I propose to reduce basic customs duty on machinery and instruments for surveying and prospecting from 10 per cent or 7.5 per cent to 2.5 per cent. In addition, full exemption from basic customs duty is being provided to coal mining projects.

Railways

186. Over the next five years, Indian Railways are undertaking two major projects for passenger safety and better service delivery. These are - the installation of Train Protection and Warning System and upgradation of track structure for high speed trains. I propose to reduce basic customs duty on equipment required for their implementation from 10 per cent to 7.5 per cent.

Roads

187. Full exemption from import duty on specified equipment imported for road construction by contractors of Ministry of Road Transport and Highways, NHAI and State Governments is being extended to contracts awarded by Metropolitan Development Authorities.

188. Tunnel boring machines and parts for their assembly are covered by this exemption. I propose to allow their import free of duty without end-use condition.

Civil Aviation

189. India has potential for establishing itself as a hub for third-party Maintenance, Repair and Overhaul (MRO) of civilian aircraft. To actualize this potential, I propose to fully exempt from basic customs duty parts of aircraft and testing equipment imported for this purpose. As a measure of support to the airline industry, it is also proposed to fully exempt both new and retreaded aircraft tyres from basic customs duty and excise duty.

Manufacturing

190. My proposals for the manufacturing sector that needs support at this juncture, seek to provide relief through cost reduction of raw materials, inputs, components and capital goods.

191. To encourage enrichment of low-grade iron ore, of which we have huge reserves, I propose to reduce basic customs duty on plant and machinery imported for setting up or substantial expansion of iron ore pellet plants or iron ore beneficiation plants from 7.5 per cent to 2.5 per cent. My other proposals relating to the steel sector are as under:

- to reduce basic customs duty on:
  - ☐ coating material for manufacture of electrical steel from 7.5 per cent to 5 per cent
  - ☐ nickel ore and concentrate and nickel oxide/ hydroxide from 2.5 per cent or 7.5 per cent to Nil
- to enhance export duty on chromium ore from ₹3000 per tonne to 30 per cent ad valorem
- to enhance basic customs duty on non-alloy, flat-rolled steel from 5 per cent to 7.5 per cent.

192. Our textile industry, especially the weaving sector, urgently needs to modernise. I propose to fully exempt automatic shuttle-less looms from basic customs duty of 5 per cent. Similarly, full exemption from basic duty is being accorded to automatic silk reeling and processing machinery as well as its parts. It is also proposed to restrict these exemptions and the existing concessional rate of basic customs duty of 5 per cent only to new textile machinery. Second-hand machinery would now attract basic duty of 7.5 per cent. Other proposals on textiles are:

- to reduce basic customs duty on wool waste and wool tops from 15 per cent to 5 per cent
- to reduce basic customs duty on Titanium dioxide from 10 per cent to 7.5 per cent
- to extend full exemption from basic customs duty to aramid yarn and fabric used for the manufacture of bullet proof helmets

193. Excise duty of 10 per cent is applicable to branded ready-made garments with abatement of 55 per cent from the Retail Sale Price. Along with increase in duty to 12 per cent, I propose to enhance the abatement to 70 per cent. As a result, the incidence of duty as a percentage of the Retail Sale Price would come down from 4.5 per cent to 3.6 per cent.

194. Our MSME sector is fertile ground for the production of low-cost medical devices. In order to provide impetus to this sector, I propose to reduce basic customs duty to 2.5 per cent with concessional CVD of 6 per cent on specified parts, components and raw materials for the manufacture of some disposables and instruments. Full exemption from basic customs duty and CVD is also being extended to specified raw materials for the manufacture of coronary stents and heart valves. These concessions would be subject to actual user condition.

195. My other proposals to support the manufacturing sector include:

- Full exemption from basic customs duty on
  - waste paper,
  - LCD and LED TV panels, and parts of memory card for mobile phones
- Reduction of basic customs duty on specified raw materials for the manufacture of adult diapers from 10 per cent or 7.5 per cent to 5 per cent with CVD of 6 per cent and nil special CVD.

196. My attention has been drawn to the plight of a few sectors that are highly labour-intensive and produce items of mass consumption. As a measure of support, I propose to enhance basic customs duty on bicycles from 10 per cent to 30 per cent and on bicycle parts from 10 per cent to 20 per cent.

197. Full exemption from excise duty is currently available to hand-made matches while others attract the standard rate. It is proposed to reduce excise duty on matches manufactured by semi-mechanised units from 10 per cent to 6 per cent.

Health and Nutrition

198. It is proposed to extend concessional basic customs duty of 5 per cent with full exemption from excise duty/CVD to six specified life-saving drugs/ vaccines. These are used for the treatment or prevention of ailments such as HIV-AIDS, renal cancer, etc.

199. Protein deficiency among women and children is one of the most common sources of malnutrition in India. I propose to reduce basic customs duty on Soya protein concentrate and isolated soya protein from 30 per cent or 15 per cent respectively to 10 per cent. Simultaneously, excise duty on all processed soya food products is being reduced to the merit rate of 6 per cent.

200. Consumption of iodised salt prevents iodine deficiency and related diseases. I propose to provide a concessional basic customs duty of 2.5 per cent along with reduced excise duty of 6 per cent on iodine.

201. Probiotics are a cost-effective means of combating bacterial infections. It is proposed to reduce the basic customs duty on this item from 10 per cent to 5 per cent.

Environment

202. In order to fully realise our potential in the realm of solar energy, solar thermal projects need encouragement. I propose to fully exempt plant and equipment etc. for the initial setting up of such projects from special CVD.

203. Concessions have already been provided for encouraging the consumption of energy-saving devices. I propose to fully exempt a coating chemical used for compact fluorescent lamps, from basic customs duty. Excise duty on LED lamps is also being reduced to 6 per cent.

204. Specified parts required for the manufacture of hybrid vehicles enjoy full exemption from basic customs duty and special CVD with concessional excise duty/ CVD of 6 per cent. This concession is being extended to specified additional items and lithium ion batteries imported for the manufacture of battery packs for supply to electric or hybrid vehicle manufacturers.

205. One of the primary drivers of the current account deficit has been the growth of almost 50 per cent in imports of gold and other precious metals in the first three quarters of this year. I have been advised to strengthen the steps already taken to check this trend for better results. I propose to increase basic customs duty on standard gold bars; gold coins of purity exceeding 99.5 per cent and platinum from 2 per cent to 4 per cent and on non-standard gold from 5 per cent to 10 per cent. In sync with these, basic duty on gold ore, concentrate and dore bars for refining is being enhanced from 1 per cent to 2 per cent. On the excise side, duty on refined gold is being increased in the same proportion from 1.5 per cent to 3 per cent.

206. In order to prevent round-tripping, it is proposed to impose basic customs duty of 2 per cent on cut and polished, coloured gem stones at par with diamonds.

Additional Resource Mobilisation

207. I shall now take up my proposals on “demerit” goods. I propose to increase basic excise duty on cigarettes of more than 65mm length by adding an *ad valorem* component of 10 per cent to the existing specific rates. The *ad valorem* duty would be chargeable on 50 per cent of the Retail Sale Price declared on the pack.

208. I also propose to carry out a nominal increase in basic excise duty on hand-rolled *bidis* from ₹8 to ₹10 per thousand and on machine-rolled bidis from ₹19 to ₹21 per thousand. The existing exemption available to hand-rolled bidis for clearances up to 20 lakh bidis per annum is being retained.

209. Pan masala, gutkha, chewing tobacco, unmanufactured tobacco and zarda scented tobacco in pouches are leviable to excise duty under the compounded levy scheme. The rates of duty specified per packing machine for these items are being stepped up taking into account improvements in the efficiency of machines used by this industry.

210. Crude petroleum oil produced in India attracts a cess of ₹2,500 per metric tonne under the Oil Industries Development Act. This rate was last revised in Budget 2006-07. As a measure of indexation, I propose to increase the rate of cess to ₹4,500 per metric tonne.

211. Completely Built Units of large cars/ MUVs/ SUVs having engine capacity above a prescribed threshold and whose value exceeds US dollar 40,000 per vehicle are permitted for import without type approval. Basic customs duty on such vehicles is being enhanced from 60 per cent to 75 per cent *ad valorem.*

Rationalisation Measures

212. Packaged cement, whether manufactured by mini-cement plants or others, attracts differential excise duty depending on the Retail Sale Price per bag. It is proposed to prescribe a unified rate of 12 per cent + ₹120 PMT for non-mini cement plants and 6 per cent + ₹120 PMT for mini-cement plants. It is proposed to charge this duty on the Retail Sale Price less abatement of 30 per cent.

213. The House would recall that I had re-introduced a levy of excise duty of 1 per cent on branded precious metal jewellery in the last Budget. As a measure of rationalisation, I propose to include jewellery, not bearing a brand name, under its ambit. However, to simplify its operation and minimise its impact on small artisans and goldsmiths, I propose:

- to charge this duty on tariff value equal to 30 per cent of the transaction value;
- to extend small-scale exemption up to annual turnover not exceeding ₹1.5 crore for units having a turnover below ₹ 4 crore in the previous year;
- to compute turnover on the basis of tariff value; and
- to place the onus of registration and payment on the person who gets jewellery manufactured on job-work.

214. I propose to fully exempt branded silver jewellery from excise duty.

215. Building of commercial vehicle bodies is currently exempt from excise duty. In lieu of this duty, a specific rate of ₹10,000 is being charged on chassis in addition to the applicable ad valorem duty. This duty structure is regressive. It is proposed to convert the specific component of duty to an ad valorem rate of 3 per cent.

216. In the last Budget, excise duty exemption on ships and vessels including dredgers was withdrawn. Accordingly, CVD of 5 per cent became leviable on their imports. As the intention was not to levy this duty on the import of foreign-going vessels, I propose to exempt such vessels from CVD retrospectively.

However, to ensure that ships, vessels and dredgers manufactured in India do not face disability vis-à-vis foreign-going ships converting into coastal vessels, necessary safeguard is being provided.

Baggage Allowance

217. Baggage allowance for Indians travelling abroad was last revised in 2004. I propose to increase the duty-free allowance for eligible passengers of Indian origin from ₹25,000 to ₹35,000 and for children of up to 10 years from ₹12,000 to ₹15,000.

218. My proposals relating to Customs and Central excise are estimated to result in a net revenue gain of ₹ 27,280 crore for a full year.

219. My proposals on Direct Taxes are estimated to result in a net revenue loss of ₹4500 crore for the year. Proposals relating to Indirect Taxes are estimated to result in a net revenue gain of ₹45,940 crore, leaving a net gain of ₹41,440 crore in the Budget.

220. For the Indian economy, this was a challenging year. A number of global and domestic factors militated against the growth that had revived in the last two years. But India has thrived under challenges and India will do so now. In the middle of every crisis, there is also an opportunity. It is an opportunity to re-think, re-assess and make way for new ideas and policies. It is in this spirit that I approached the Budget of this year. The aim is to create an enabling atmosphere for corporates, farmers, entrepreneurs and workers to take initiatives for robust growth. The aim is also to ensure that the benefits of growth reach all sections of population. India stands on the brink of a major resurgence. Whether or not today's announcements make tomorrow morning's headlines matters little, as long as they help in shaping the headlines that describe India a decade from now.

Madam Speaker, with these words, I commend the Budget to the House.