

GS SCORE



for
Civil Services Examination

BUDGET GLOSSARY

► Union Budget

Union Budget is the most comprehensive report of the Government's finances in which revenues from all sources and outlays for all activities are consolidated. The Budget also contains estimates of the Government's accounts for the next fiscal year called Budgeted Estimates.

► Direct and Indirect Taxes

Direct taxes are the one that fall directly on individuals and corporations. For example, income tax, corporate tax etc.

Indirect taxes are imposed on goods and services. They are paid by consumers when they buy goods and services. These include excise duty, customs duty etc.

► GST

The constitution defines "Goods and Services Tax" means any tax on supply of goods, or services or both except taxes on the supply of the alcoholic liquor for human consumption.

"goods" means every kind of movable property other than money and securities but includes actionable claim, growing crops, grass and things attached to or forming part of the land which are agreed to be severed before supply or under a contract of supply

"services" means anything other than goods, money and securities but includes activities relating to the use of money or its conversion by cash or by any other mode, from one form, currency or denomination, to another form, currency or denomination for which a separate consideration is charged

► Customs Duty

These are levies charged when goods are imported into, or exported from, the country, and they are paid by the importer or exporter. Usually, these are also passed on to the consumer.

► Fiscal Deficit

When the government's non-borrowed receipts fall short of its entire expenditure, it has to borrow money from the public to meet the shortfall. The excess of total expenditure over total non-borrowed receipts is called the fiscal deficit.

► Revenue Deficit

The difference between revenue expenditure and revenue receipt is known as revenue deficit. It shows the shortfall of government's current receipts over current expenditure.

► Primary Deficit

The primary deficit is the fiscal deficit minus interest payments. It tells how much of the Government's borrowings are going towards meeting expenses other than interest payments.

► Fiscal policy

It is the government actions with respect to aggregate levels of revenue and spending. Fiscal policy is implemented through the budget and is the primary means by which the government can influence the economy.

► Monetary Policy

This comprises actions taken by the central bank (i.e. RBI) to regulate the level of money or liquidity in the economy, or change the interest rates.

► Inflation

A sustained increase in the general price level. The inflation rate is the percentage rate of change in the price level.

► Capital Budget

The Capital Budget consists of capital receipts and payments. It includes investments in shares, loans and advances granted by the central Government to State Governments, Government companies, corporations and other parties.

► **Revenue Budget**

The revenue budget consists of revenue receipts of the Government and its expenditure. Revenue receipts are divided into tax and non-tax revenue. Tax revenues constitute taxes like income tax, corporate tax, excise, customs, service and other duties that the Government levies. The non-tax revenue sources include interest on loans, dividend on investments.

► **Finance Bill**

The Bill produced immediately after the presentation of the Union Budget detailing the Imposition, abolition, alteration or regulation of taxes proposed in the Budget.

► **Vote on Account**

The Vote on Account is a grant made in advance by the parliament, in respect of the estimated expenditure for a part of new financial year, pending the completion of procedure relating to the voting on the Demand for Grants and the passing of the Appropriation Act.

► **Excess Grants**

If the total expenditure under a Grant exceeds the provision allowed through its original Grant and Supplementary Grant, then, the excess requires regularization by obtaining the Excess Grant from the Parliament under Article 115 of the Constitution of India. It will have to go through the whole process as in the case of the Annual Budget, i.e. through presentation of Demands for Grants and passing of Appropriation Bills.

► **Budget Estimates**

Amount of money allocated in the Budget to any ministry or scheme for the coming financial year.

► **Revised Estimates**

Revised Estimates are mid-year review of possible expenditure, taking into account the rest of expenditure, New Services and New instrument of Services etc. Revised Estimates are not voted by the Parliament, and hence by itself do not provide any authority for expenditure. Any additional projections made in the Revised Estimates need to be authorized for expenditure through the Parliament's approval or by Re-appropriation order.

► **Re-appropriations**

Re-appropriations allow the Government to re-appropriate provisions from one sub-head to another within the same Grant. Re-appropriation provisions may be sanctioned by a competent authority at any time before the close of the financial year to which such grant or appropriation relates. The Comptroller & Auditor General and the Public Accounts Committee reviews these re-appropriations and comments on them for taking corrective actions.

► **Outcome Budget**

From the fiscal year 2006-07, every Ministry presents a preliminary Outcome Budget to the Ministry of Finance, which is responsible for compiling them. The Outcome Budget is a progress card on what various Ministries and Departments have done with the outlays in the previous annual budget. It measures the development outcomes of all Government programs and whether the money has been spent for the purpose it was sanctioned including the outcome of the fund usage.

► **Guillotine**

Parliament, unfortunately, has very limited time for scrutinising the expenditure demands of all the Ministries. So, once the prescribed period for the discussion on Demands for Grants is over, the Speaker of Lok Sabha puts all the outstanding Demands for Grants, whether discussed or not, to the vote of the House. This process is popularly known as 'Guillotine'.

► **Cut Motions**

Motions for reduction to various Demands for Grants are made in the Form of Cut Motions seeking to reduce the sums sought by Government on grounds of economy or difference of opinion on matters of policy or just in order to voice a grievance.

► **Consolidated Fund of India**

All revenues raised by the Government, money borrowed and receipts from loans given by the Government flow into it. All Government expenditure other than certain exceptional items met from Contingency Fund and Public Account are made from this account. No money can be

appropriated from the Fund except in accordance with the law.

► **Contingency Fund of India**

A fund placed at the disposal of the President to enable him/her to make advances to the executive/Government to meet urgent unforeseen expenditure.

► **Public Account**

Under provisions of Article 266(1) of the Constitution of India, Public Account is used in relation to all the fund flows where Government is acting as a banker. Examples include Provident Funds and Small Savings. This money does not belong to government but is to be returned to the depositors. The expenditure from this fund need not be approved by the Parliament.

► **Corporate Tax**

This is the tax paid by corporations or firms on the incomes they earn.

► **Minimum Alternative Tax (MAT)**

The Minimum Alternative Tax is a minimum tax that a company must pay, even if it is under zero tax limits.

► **Disinvestment**

By disinvestment we mean the sale of shares of public sector undertakings by the Government. The shares of government companies held by the Government are earning assets at the disposal of the Government. If these shares are sold to get cash, then earning assets are converted into cash, So it is referred to as disinvestment.

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Introduction

The Finance Minister presented the Union Budget for the year 2018. The thrust of the Budget was on the agricultural sector, rural economy, healthcare, MSMEs and infrastructure.

The Minister promised presence of a leadership capable of taking difficult decisions and restoring strong performance of Indian economy. He promised to reduce poverty, expedite infrastructure creation and build a strong, confident and a new India.

State of Indian Economy

- The figures for FY18 show that the Indian economy faced a temporary slowdown on the back of reform measures such as GST and demonetisation. While the economy continues to be the seventh largest in the world (third largest in PPP terms), the growth rates are at a four-year low.
- Both IMF and World Bank estimate that India's economy will grow by 6.7% in FY 2017-18. Advance estimates by CSO suggest that the economy will grow by 6.5% in this fiscal year.
- The GDP at market prices in Q1 FY 2017-18 was recorded at 5.72%, which was the lowest in 12 quarters. Partially, this was due to sluggish performance by the industry segment.
- However, notably, India is still one of the best performing economies in the world, despite this temporary blip. GDP growth has averaged 7.3% for the period from 2014-15 to 2017-18, which is the highest among the major economies of the world. The growth is around 4% higher than world average of last 3 years and nearly 3% more than the average growth achieved by EMDEs.
- The economy has shown signs of recovery in the second half of the year. Industrial production for instance has picked up after bottoming out in June 2017.
- In November, IIP growth surged to a 25-month high on the back of a manufacturing boost. Similarly, other metrics such as vehicle sales, cement production and bank credit present an optimistic scenario for the economy.

This year's Budget will particularly focus on:

1. Strengthening agriculture and rural economy
2. Provision of good health care to economically less privileged
3. Taking care of senior citizens
4. Infrastructure creation
5. Working with the States to provide more resources for improving the quality of education in the country.

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- **GDP growth:** The GDP is expected to grow at 6.5% this fiscal (2017-18), according to the first advance estimates of the CSO as against 7.1% in the previous year.
- **Inflation:** Retail inflation fell sharply in the first half of the year, declining to a five-year low of 1.6% in June 2017. This was partly due to a fall in global crude prices, food prices and because of lower domestic demand. Post June 2017, there was a continuous rise in inflation, rising up to 5.21%. However, the average for the year to date (April to December) stood at 3.23%, which was lower than 5.47% during the same period in previous year.
- **Fiscal deficit:** Fiscal deficit as percentage of GDP for FY 2017-18 is revised to 3.5% from 3.2% budgeted. Further, the Government aims to bring down fiscal deficit to 3.3% of GDP in FY 2018-19. This is on account of rising revenue deficit to 2.6%.
- **Trade deficit:** India's trade deficit increased by 33% during April to November 2017, when it stood at USD 102.1 billion, as opposed to USD67.8 billion in the corresponding period of the previous year. This was primarily due to a 22% increase in imports as against only 11% increase in exports. Both oil and non-oil imports grew in roughly the same proportion.
- **Currency:** The rupee appreciated by 4.14%, as it stood at an average of 64.4 per USD during April 2017 to January 2018 against an average of 67.19 per USD during the same period in the previous year.

State of Global Economy

- The world economic output rebounded in 2017 with a growth rate of 3.7% as compared to an eight-year low growth of 3.2% in 2016. As per the IMF, the year 2017 witnessed "the broadest synchronised global growth upsurge since 2010."
- The pickup in growth has been broad based, with notable surprises in Europe and Asia. While the advanced economies are estimated to grow by 2.3%, the EMDEs are estimated to grow by 4.7% in 2017.
- China remains the fastest growing major economy in the world growing at 6.8% followed by India at 6.7%. The forecast for the coming years also appears positive, reflecting the increased global momentum. Global economic output is slated to grow by 3.9% in 2018 and 2019.

Risks

- The build-up of financial vulnerabilities remains a key concern. As noted in the October 2017 Global Financial Stability Report, the share of companies with low investment grade ratings in advanced economy bond indices has increased significantly in recent years.
- Non-financial corporate debt has also grown rapidly in some emerging markets, calling for a policy response.
- An increase in trade barriers and regulatory realignments would weigh on global investment and may pose as an obstacle for increased global output.
- Rise in commodity prices may also adversely impact the non-OPEC countries.
 - These risks may threaten the global economy, and consequently, the Indian economy.

Reforms Announced by Government in Last One Year

- The indirect tax system, with introduction of Goods and Services Tax, has been made simpler.
- Benefits to the poor have been targeted more effectively with use of digital technology.
- The demonetization of high value currency has reduced the quantum of cash currency and circulation in India. It has increased the taxation base and spurred greater digitization of the economy.
- Natural resources are now allocated in a transparent and honest manner.
- The Insolvency and Bankruptcy Code (IBC) has changed the lender-debtor relationship. The recapitalized banks will now have a greater ability to support growth.
- In October 2017, the Finance ministry announced INR 2.11 trillion recapitalisation plan for PSU banks over the next two years. Of the total amount, INR 1.35 trillion would come from recapitalisation bonds, INR 181.39 billion from the centre's budgetary funds and the remaining INR 580 billion would be mopped up from capital market by diluting the Government's equity. Capital infusion was a long-standing demand of state-owned banks, as the asset qualities of these banks have grossly worsened due to increasing non-performing assets. The Government's announcement also led to improvements in the country's sovereign rating.
- India joined the league of selected countries such as the USA and Australia where fuel prices are revised on a daily basis.
- Government is providing free LPG connections to the poor of this country through Ujjwala Yojana. Under Saubhagya Yojna 4 crore household are being provided with electricity connections. More than 800 medicines are being sold at lower price through more than 3 thousand Jan Aushadhi Centres.
- Cost of stents have been controlled. Special scheme for free dialysis of poor have been initiated. Persons belonging to poor and middle class are also being provided a great relief in interest rates on housing schemes.
- Efforts are being made to provide all government services, whether bus or train tickets or individual certificates online. These include passports which may be delivered at doorstep in two or three days or Company registration in one day time and these facilities have benefited a large section of our country. Certificate attestation is not mandatory, interviews for appointment in Group C and Group D posts have been done away with.

Summary of Key Policy Announcements

► Agriculture and Rural Economy

- Government has planned to develop and upgrade rural markets into GrAMs. These e-NAM linked GrAMs exempted from APMC regulations will allow farmers to sell directly to consumers.
- With a view to realise better prices for farmers, the NITI Aayog, in discussion with the Central Government and State Governments will implement an appropriate mechanism.

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- The Government will promote cluster-based development of agricultural commodities and regions.
- State Governments to put in place a mechanism under which distribution companies could purchase surplus solar power from farmers at reasonably remunerative rates.

► **Health, Education and Social Protection**

- “Revitalising Infrastructure and Systems in Education by 2022” to be launched to increase investment in research and related infrastructure in educational and health institutions.
- To improve the quality of education, the Government proposes to introduce digital means for imparting education and training teachers.
- Private sector participation, through Corporate Social Responsibility initiatives, is to be encouraged towards adopting health and wellness centres set up under the National Health Policy, 2017.
- National Health Protection Scheme to be launched for providing coverage of up to INR 500,000 per poor family per year for secondary and tertiary care.

► **MSMEs and Employment**

- The Government proposes to promulgate a framework to help MSMEs to address the issues of non-performing assets and stressed accounts.
- It is proposed to review the refinancing policy and eligibility criteria set up under MUDRA Yojana to help refinancing of Non-Banking Finance Companies.
- The Ministry of Finance is considering a policy framework, along with other institutional development measures, to facilitate the growth of Fintech companies in India.
- Policy announcements are expected for strengthening the regulatory framework to enable investments by AIFs in India.
- To give impetus to employment generation in the country, the following measures have been proposed:
 - ◆ The Government to contribute 12% in Employee Provident Fund for new employees in all sectors for a period of 3 years;
 - ◆ EPF contribution for women employees to be lowered to 8% for the first 3 years without any change in employer’s contribution; and
 - ◆ Fixed term employment facility to be extended to all sectors.

► **Infrastructure and Financial Sector Development**

- Ten prominent tourist attractions to be developed further as iconic tourism destinations, with special focus on infrastructure and skill development, development of technology, attracting private investment, branding and marketing.
- Investment in seaplane activities to be encouraged with a view to promote tourism and emergency medical care.
- Proposal by SEBI to mandate large corporates to meet one-fourth of their funding needs through the bond market.
- Stamp duty regime on financial securities transactions to be reformed.
- Government to establish a unified authority for regulating all financial services in International Financial Service Centres to ensure a coherent and integrated regulatory framework for them.

- Continuing focus on the fast changing digital world, the NITI Aayog to initiate a national program on artificial intelligence, including research and development of its applications.
- For further investment in the digital ecosystem, the Department of Science & Technology to launch a Mission on Cyber Physical Systems to establish Centres of Excellence.
- Government to take measures to eliminate the use of cryptocurrencies in financing illegal activities or as part of payment systems.
- Government to introduce a policy for toll systems on “pay as you use” basis to promote electronic payments further.

► **Building Institutions and Improving Public Service Delivery**

- In the defence sector, the Government is proposing two defence industrial production corridors and a Defence Production Policy, 2018 to promote Make in India by public/ private sectors and MSMEs.
- National Logistics Portal to be developed by the Department of Commerce to bring together all stakeholders through a single window online marketplace.
- RBI Act to be amended to institutionalise an uncollateralised deposit facility, which would help the RBI manage excess liquidity.
- Government to review existing guidelines and introduce a coherent and integrated Outward Direct Investment Policy.
- Government to introduce a separate policy for hybrid instruments to help attract foreign investment in niche areas.
- REIT, InvITs and AIFs to be brought within the ambit of penalty provisions for non-compliance of listing/ de-listing conditions. In addition, investment advisors to be covered for non-compliance with SEBI regulations.

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Agriculture & Rural Development

Context

In the agriculture sector, the announcements are made to fulfil the following objectives:

- Government is committed for the welfare of farmers and to double farmers' income by 2022 when India celebrates its 75th year of independence.
- To help farmers produce more from the same land parcel at lesser cost and simultaneously realize higher prices for their produce.
- To generate productive and gainful on-farm and non-farm employment for the farmers and landless families.

Budget Announcements

A. Agriculture Pricing and Marketing

- MSP for all unannounced kharif crops will be one and half times of their production cost like majority of rabi crops.
- 22,000 Rural Haats to be developed and upgraded into Gramin Agricultural Markets (GrAMs). These GrAMs, electronically linked to e-NAM and exempted from regulations of APMCs.
- An Agri-Market Infrastructure Fund with a corpus of Rs.2000 crore will be setup for developing and upgrading agricultural marketing infrastructure in the 22000 Grameen Agricultural Markets (GrAMs) and 585 APMCs.

B. Horticulture and Allied Sectors

- "Operation Greens" to be launched to address price fluctuations in potato, tomato and onion for benefit of farmers and consumers on the lines of "Operation Flood".
- The Ministry of Agriculture & Farmers' Welfare will reorient its ongoing Schemes and promote cluster based development of agri-commodities and regions in partnership with the Ministries of Food Processing, Commerce and other allied Ministries.
- Organized cultivation of highly specialized medicinal and aromatic plants and the organic farming by Farmer Producer Organizations (FPOs) and Village Producers' Organizations (VPOs) in large clusters, preferably of 1000 hectares each will be encouraged.

- After the establishment of Dairy Infrastructure Fund, government announced setting up a Fisheries and Aqua culture Infrastructure Development Fund (FAIDF) for fisheries sector and an Animal Husbandry Infrastructure Development Fund (AHIDF) for financing infrastructure requirement of animal husbandry sector with a total corpus of Rs.10,000 crore for the two new funds.
- Re-structuring of National Bamboo Mission with support of Rs.1290 crore.

C. Agriculture Infrastructure:

- ▶ Strengthening the Ground water irrigation scheme under Prime Minister Krishi Sinchai Yojna – Har Khet ko Pani – the Government allocated Rs. 2600 crore for this purpose. This would provide assured irrigation in 96 deprived irrigation districts where less than 30% of the land holdings get that in present.
- ▶ The Centre will work with the state governments to facilitate farmers for installing solar water pumps to irrigate their fields.
- ▶ State Governments will be encouraged to put in place a mechanism that surplus solar power is purchased from farmers by the distribution companies or licencees at reasonably remunerative rates.

D. Agriculture Credit

- ▶ The facility of Kisan Credit Cards will be extended to fisheries and animal husbandry farmers.
- ▶ Institutional Farm Credit raised to 11 lakh crore in 2018-19 from 8.5 lakh crore in 2014-15.
- ▶ NITI Aayog, in consultation with State Governments, will evolve a suitable mechanism to enable access of lessee cultivators to credit without compromising the rights of the land owners.

E. Agriculture Export

- ▶ Export of agri-commodities will be liberalized. State-of-the-art testing facilities will be set up in all the forty two Mega Food Parks.

F. Rural Development

- ▶ For creation of livelihood and infrastructure in rural areas, total amount to be spent by various Ministries will be Rs.14.34 lakh crore, including extra-budgetary and non-budgetary resources of Rs.11.98 lakh crore.
- ▶ Apart from employment due to farming activities and self employment, this expenditure will create employment of 321 crore person days, 3.17 lakh kilometers of rural roads, 51 lakh new rural houses, 1.88 crore toilets, and provide 1.75 crore new household electric connections besides boosting agricultural growth.
- ▶ The Government has substantially increased the allocation of National Rural Livelihood Mission to Rs. 5750 crore in 2018-19.
- ▶ In an effort to make the villages open defecation free and improving the lives of villagers, the Finance Minister has announced the launch of Galvanizing Organic Bio-Agro Resources Dhan (GOBAR-DHAN) . This will manage and convert cattle dung and solid waste in farms to compost, bio-gas and bio-CNG.
- ▶ To achieve the vision of an inclusive society, the Government has identified 115 aspirational districts taking various indices of development in consideration, aiming at improving the quality of life in these districts by investing in social services like health, education, nutrition, skill upgradation, financial inclusion and infrastructure like irrigation, rural electrification, potable drinking water and access to toilets at an accelerated pace and in a time bound manner.

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Terminologies

► Kharif crops:

- From July to October
- Harvest in September to October
- Known as Monsoon Crops
- In Arabic, Kharif means autumn
- Kharif crops need a lot of water
- The Kharif crops include Rice, Maize, Sorghum, Tea, Coffee, Rubber, Sesame, Guar, Cereals like Pearl Millet, Arhar Dhal, Soybeans, Oilseeds, Cotton etc.

► Rabi crops:

- Sown in October – November
- Harvest in February – April
- Known as Winter Season Crops
- Require cold weather for growth
- Consumes less water
- The rabi crops include Wheat, Barley, Oats, Cereals, Pulses, Linseed, Oilseeds, Chickpea, Rape and Mustard Seed.

► Zaid crops:

- Sown in March to June (between Kharif and Rabi)
- Needs warm dry weather for growth and longer day length for flowering
- Vegetables and Seasonal fruits

► Farmer Producer Organizations

- A Producer Organisation (PO) is a legal entity formed by primary producers, viz. farmers, milk producers, fishermen, weavers, rural artisans, craftsmen etc.
- The main aim of PO is to ensure better income for the producers through an organization of their own. Small producers do not have the volume individually (both inputs and produce) to get the benefit of economies of scale. Besides, in agricultural marketing, there is a long chain of intermediaries who very often work non-transparently leading to the situation where the producer receives only a small part of the value that the ultimate consumer pays. Through aggregation, the primary producers can avail the benefit of economies of scale. They will also have better bargaining power vis-à-vis the bulk buyers of produce and bulk suppliers of inputs.
- "Farmers Producer Organisation" is one type of PO where the members are farmers. Small Farmers' Agribusiness Consortium (SFAC) is providing support for promotion of FPOs.

► **National Bamboo Mission**

- The National Bamboo Mission is a Centrally Sponsored Scheme, in which the contribution of the Central Government will be 100%. The Scheme will be implemented by the Division of Horticulture under the Department of Agriculture and Cooperation in the Ministry of Agriculture, New Delhi.
- The main objectives of the Mission are:
 - To promote the growth of the bamboo sector through as an area based regionally differentiated strategy;
 - To increase the coverage of area under bamboo in potential areas, with improved varieties to enhance yields;
 - To promote marketing of bamboo and bamboo based handicrafts;
 - To establish convergence and synergy among stake-holders for the development of bamboo;
 - To promote, develop and disseminate technologies through a seamless blend of traditional wisdom and modern scientific knowledge.
 - To generate employment opportunities for skilled and unskilled persons, especially unemployed youths.

► **Prime Minister Krishi Sinchai Yojna**

- The major objective of PMKSY is to achieve convergence of investments in irrigation at the field level, expand cultivable area under assured irrigation, improve on-farm water use efficiency to reduce wastage of water, enhance the adoption of precision-irrigation and other water saving technologies (More crop per drop), enhance recharge of aquifers and introduce sustainable water conservation practices by exploring the feasibility of reusing treated municipal waste water for peri-urban agriculture and attract greater private investment in precision irrigation system.

► **Kisan Credit Cards**

- The Kisan Credit Card (KCC) scheme is a credit scheme introduced in August 1998 by Indian banks. This model scheme was prepared by the National Bank for Agriculture and Rural Development (NABARD) on the recommendations of R.V. GUPTA to provide term loans and agricultural needs.
- Its objective is to meet the comprehensive credit requirements of the agriculture sector by giving financial support to farmers. Participating institutions include all commercial banks, Regional Rural Banks, and state co-operative banks.

► **National Rural Livelihood Mission**

- National Rural Livelihoods Mission (NRLM) - Aajeevika was launched by the Ministry of Rural Development (MoRD), Government of India in June 2011 as a restructured version of Swarna Jayanti Gram Swarozgar Yojna (SGSY). NRLM has the mandate of reaching out to 100 million rural poor in 6 lakh villages across the country.
- NRLM rests on three major pillars – universal social mobilization, financial inclusion and livelihoods enhancement. It works towards bringing at least one member (preferably a woman) from all poor families into the SHG network. The SHGs and their federations offer their members services such as savings, credit and livelihoods support. As the Institutions of the Poor (IoP) mature, they are facilitated to take up livelihoods/income-generating activities.

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► Bio-CNG

Bio-CNG is a purified form of biogas with over 95% pure methane gas. It is similar to natural gas in its composition (97% methane) and energy potential. While natural gas is a fossil fuel, bio-CNG is a renewable form of energy produced from agricultural and food waste.

Bio-CNG is being looked at as an environment-friendly alternative to diesel.

Implications of the Announcements

The budget focused on addressing the post-harvest issue to provide relief and bargaining power to the farmer, improve farm incomes and rejuvenate rural demand. Though a lot would depend on the implementation of the schemes, the current allocation indicates a boost to rural incomes which would ripple through to farm inputs and rural consumption.

A. Agriculture Pricing and Marketing

- Government's announcement of 1.5x input cost MSP (Minimum Support Prices) prices for Kharif crop to farmers will help to achieve the aim to double the farmers income and reduce the agriculture distress. However challenge lies in fair MSP calculation methodology and its effective implementation. Though too drastic increase will render the commodity uncompetitive in global markets and unaffordable to mill owners.
- Since all the farmers are not able to sale the produce at MSP and forced to sale below MSP at APMCs, the budget reiterates the need for effective implementation of MSP and directed NitiAayog to introduce a mechanism to ensure farmers get adequate price for their produce.
- full implementation of eNAM system (online agriculture marketplace) by March 2018 and development and up gradation of 22,000 rural haats into Gramin Agricultural Markets (GrAMs) which would be linked to eNAM will enhance the access of small and marginal farmers (86%) to such platform and empower the farmers with ample bargaining power to fetch justified prices through direct sale to consumers and bulk purchasers.
- These GrAMs, electronically linked to e-NAM and exempted from regulations of APMCs, will end the institutionalized exploitation of farmers from middlemen and cartels. This will also help prevent undue volatility that creates stress for farmers.
- For better price realization, farmers need to make decisions based on prices likely to be available after its harvest. Government will create an institutional mechanism, with participation of all concerned Ministries, to develop appropriate policies and practices for price and demand forecast, use of futures and options market, expansion of warehouse depository system and to take decisions about specific exports and imports related measures.

B. Horticulture and allied sectors

- Operation Green on lines of Operation Flood would create a seamless link between producer and consumer which would reduce seasonal and regional fluctuation in production and price of perishable commodities. This would also promote the agri-logistics associations.
- Cultivation of horticulture crops in clusters will bring advantages of scales of operations and can spur establishment of entire chain from production to marketing, besides giving recognition to the districts

for specific crops on lines of industrial clusters.

- Encouragement of Women Self Help Groups (SHGs) to take up organic agriculture in clusters under National Rural Livelihood Programme would empower the rural women and make them more enterprising.
- Organized cultivation of highly specialized medicinal and aromatic plants and the organic farming will promote a large number of small and cottage industries that manufacture perfumes, essential oils and other associated products. Thus off-farm opportunities will be generated which will boost employment and income to small farmers.

C. Agriculture Infrastructure:

- Irrigation reforms and announced incentives for rapid development and penetrations of farm irrigations systems would help to reduce dependency on weather and monsoons.
- Increase in penetration of solar pumps will de-dieselize the farm sector and reduce input cost. Purchase of extra power from such farmers would be additional incentive to them.

D. Agriculture Credit

- Increase in rural institutional credit to Rs 11 lakh crores would increase the volume and penetration of institutional credit and reduce the debt trap of small and marginal farmers by money lenders, however , challenges include timely availability, eliminating middle men between bank and farmer and inclusion in formal financing system and availability of credit without collaterals for marginal and small farmers.
- Extension of Kisan Credit Cards to fisheries and animal husbandry farmers will help them meet their working capital needs and promote these allied sectors.
- Re-structured National Bamboo Mission with an outlay of Rs. 1,290 crore will promote bamboo sector in a holistic manner. It will promote range of bamboo-based industries – from food processing to construction and can be turn around for the northeast, which grows 67% of India's bamboo.

E. Agriculture Export

- Liberalization of export of agri-commodities would enable India to realize its agri-exports potential as high as US \$ 100 billion against current exports of \$ 30 billion.

F. Others:

- The budget has proposed to extend the benefit of 100 percent tax deduction on profits to Farm producer Companies with net turnover below Rs. 100 crores. This, along with new policies that will be announced to address procurement, demand and forecast, will give the much-needed impetus to small Agri companies and improve farmers' incomes.
- The budget amends the provisions of commodity transaction tax for derivative transactions on agricultural commodity and now defines them as non-speculative transaction income. This would boost agri-commodity transactions in the derivative market.
- Agri reforms introduced will work towards improvement of rural incomes. Companies in the Agri input, seeds, crop protection, Agri feed, logistics, cold storages, food processing, Aqua culture and Agri equipment segment stand to benefit directly in the near term.

Slew of measures to boost agricultural production and the rural economy, announcing new projects as well

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as enhanced support for existing schemes to the tune of Rs. 14.34 trillion will create better prospects for largely neglected agriculture sectors, however, the long-term cure will be structural reforms in the form of policies that provide a boost to credit growth, crop insurance, drip irrigation, warehousing, mechanisation and availability of skilled farm labour. This will help the farmers to more than double their income in the long run.

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INFRASTRUCTURE

Introduction

- ▶ **Infrastructure is the growth driver of economy.** Our country needs massive investments. It is estimated that nearly Rs. 50 lakh crore is needed.
- ▶ This investment mainly needed in infrastructure, to increase growth of GDP, to connect and integrate the nation with a network of roads, airports, railways, ports and inland waterways and to provide good quality services to our people.
- ▶ Infrastructure had played very important role in India's development. It needs required push, which has been done through exemplary and proactive steps by government to remove hurdles in capital formation and employment generation.
- ▶ **This year Government has made an all-time high allocation to rail and road sectors.**
- ▶ Provision of key linkages like coal for power, power for railways and railway rakes for coal have been rationalized and made very efficient.
- ▶ To monitor infrastructure in efficient and effective manner PRAGATI (Pro-Active Governance and Timely Implementation) has been initiated.
- ▶ This year using online monitoring system of PRAGATI, projects worth 9.46 lakh crore have been facilitated and fast tracked.
- ▶ Notably this year to secure India's defences, Government is developing connectivity infrastructure in border areas.
- ▶ **Rohtang** tunnel has been completed to provide all weather connectivity to the Ladakh region.
- ▶ Contract for construction of Zozila Pass tunnel of more than 14 kilometer is under process.
- ▶ Construction of tunnel under **Sela Pass** is in proposal.

Ministry of finance will leverage the India Infrastructure Finance Corporation Limited (IIFCL) to help finance major infrastructure projects, including investments in educational and health infrastructure, on strategic and larger societal benefit considerations.

The Government and market regulators have taken necessary measures for development of monetizing vehicles like **Infrastructure Investment Trust (InvIT) and Real Investment Trust (ReITs) in India.**

Budget 2018-19– Announcements

▶ Urbanization

- Government has rolled out two interlinked programmes – Smart Cities Mission and the AMRUT.

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► **Smart Cities Mission**

- Aims at building 100 Smart Cities with state of-the-art amenities. 99 Cities have been selected with an outlay of Rs. 2.04 lakh crore.
- These Cities have started implementing various projects like Smart Command and Control Centre, Smart Roads, Solar Rooftops, Intelligent Transport Systems, Smart Parks etc.
- To preserve and revitalize soul of the heritage cities in India, National Heritage City Development and Augmentation Yojana (HRIDAY) has been taken up in a major way.
- The AMRUT programme:
 - Focuses on providing water supply to all households in 500 cities.
 - State level plans of Rs. 77,640 crore for 500 cities have been approved. Water supply contracts for 494 projects worth Rs. 19,428 crore and sewerage work contract for 272 projects costing Rs. 12,429 crore has been awarded.

► **Tourism**

- Proposal has made to develop ten prominent tourist sites into Iconic Tourism destinations by following a holistic approach involving infrastructure and skill development, development of technology, attracting private investment, branding and marketing.
- 100 Adarsh monuments of the Archaeological Survey of India will be upgraded to enhance visitor experience.

► **Road**

- National Highways exceeding 9000 kilometers length during 2017-18 is targeted.
- Bharatmala Pariyojana has been approved for providing seamless connectivity of interior and backward areas and borders of the country to develop about 35,000 kms in Phase-I at an estimated cost of Rs. 5,35,000 crore.

► **Railway**

- Railways' Capex for the year 2018-19 has been pegged at Rs.1,48,528 crore. A large part of the Capex is devoted to capacity creation.
- 18,000 kilometers of doubling, third and fourth line works and 5,000 kilometers of gauge conversion would eliminate capacity constraints and transform almost entire network into Broad Gauge.
- Government is moving fast towards optimal electrification of railway network. 4,000 kilometers are targeted for commissioning during 2017-18.
- A 'Safety First' policy, with allocation of adequate funds under Rashtriya Rail Sanraksha Kosh is cornerstone of Railways' focus on safety.
- Over 3,600 kms of track renewal is targeted during the current fiscal. Other major steps include increasing use of technology like "Fog Safe" and "Train Protection and Warning System".
- A decision has been taken to eliminate 4,267 unmanned level crossings in the broad gauge network in the next two years.
- Redevelopment of 600 major railway stations is being taken up by Indian Railway Station Development Co. Ltd. All stations with more than 25,000 footfalls will have escalators. All railway stations and trains

will be progressively provided with wi-fi. CCTVs will be provided at all stations and on trains to enhance security of passengers. Modern train sets with state-of-the-art amenities and features are being designed at Integrated Coach Factory, Perambur. First such train-set will be commissioned during 2018-19.

► **Railway - Mumbai**

- 150 kilometers of additional suburban network is being planned at a cost of over Rs. 40,000 crore, including elevated corridors on some sections.
- Foundation for the Mumbai-Ahmedabad bullet train project, India's first high speed rail project was laid on September 14, 2017. An Institute is coming up at Vadodara to train manpower required for high speed rail projects.

► **Airports**

- Regional connectivity scheme of UDAN (Ude Deshka Aam Nagrik) initiated by the Government last year shall connect 56 unserved airports and 31 unserved helipads across the country. Operations have already started at 16 such airports.
- Airport Authority of India (AAI) has 124 airports. It has been proposed to expand our airport capacity more than five times to handle a billion trips a year under a new initiative – NABH Nirman.
- Disaster Resilient Infrastructure.
- To set up a Coalition on Disaster Resilient Infrastructure for developing international good practices, appropriate standards and regulatory mechanism for resilient infrastructure development are moving well. Rs. 60 crores given to kick start this initiative in 2018-19.

Terminologies

► **PRAGATI (Pro-Active Governance and Timely Implementation):**

PRAGATI is a multi-purpose and multi-modal platform aimed at addressing grievances of common man. It also aims at simultaneously monitoring and reviewing important Union government programmes and projects as well as projects flagged by State Governments.

► **India Infrastructure Finance Company Limited (IIFCL):**

IIFCL is a wholly-owned Government of India company set up in 2006 to provide long-term financial assistance to viable infrastructure projects through the Scheme for Financing Viable Infrastructure Projects through a Special Purpose Vehicle called India Infrastructure Finance Company Ltd (IIFCL).

► **Infrastructure Investment Trust (InvIT):**

An Infrastructure Investment Trust (InvITs) is like a mutual fund, which enables direct investment of small amounts of money from possible individual/institutional investors in infrastructure to earn a small portion of the income as return. InvITs work like mutual funds or real estate investment trusts (REITs) in features. InvITs can be treated as the modified version of REITs designed to suit the specific circumstances of the infrastructure sector.

► **Real Investment Trust (REITs)**

A real estate investment trust, or REIT, is a company that owns, operates or finances income-producing real estate. For a company to qualify as a REIT, it must meet certain regulatory guidelines. REITs often

trade on major exchanges like other securities and provide investors with a liquid stake in real estate.

► **AMRUT**

Atal Mission for Rejuvenation and Urban Transformation. The purpose of AMRUT is to: (i) Ensure that every household has access to a tap with assured supply of water and a sewerage connection; (ii) Increase the amenity value of cities by developing greenery and well maintained open spaces (parks); and (iii) Reduce pollution by switching to public transport or constructing facilities for non-motorized transport (e.g. walking and cycling).

► **Heritage City Development and Augmentation Yojana (HRIDAY)**

National Heritage City Development and Augmentation Yojana (HRIDAY) was launched on 21 January 2015 with the aim of bringing together urban planning, economic growth and heritage conservation in an inclusive manner to preserve the heritage character of each Heritage City.

► **Bharatmala Pariyojana:**

Bharatmala Pariyojana is a centrally-sponsored and funded road and highways project of the Government of India. The total investment for 83,677 km committed new highways is estimated at Rs. 5.35 lakh crore.

► **UDAN (Ude Desh Ka Aam Nagrik):**

UDAN is a regional airport development and "Regional Connectivity Scheme" (RCS) of Government of India, with the objective of "Let the common citizen of the country fly", aimed at making air travel affordable and widespread, to boost inclusive national economic development, job growth and air transport infrastructure development of all regions and states of India.

Analysis of Announcements

► **Budget focused on Tourism Development**

- The budget does seem to have some promising measures and provisions for the Indian tourism and hospitality industry that has emerged as one of the key drivers of growth. Today, when India has achieved the position of being the fastest growing domestic aviation market in the world, increasing the number of airports considerably is imperative to ensure that the growth impetus does not hit an infrastructure roadblock and the momentum continues. It is heartening to see the government backing up the ambitious UDAN plan with budgetary provisions for airports.
- This budget has the much-needed approach for the creation of a holistic tourism infrastructure evident, as it mentioned about boosting the land and rail connectivity, a proposal for focus on safety and sanitation measures and boosting connectivity with the proposal of setting up Wi-Fi hotspots thereby covering most major areas.

► **Allocation of Huge Budget**

- The enhanced allocation across the board for capex for roads, railways and other infrastructure such as irrigation (including water-efficient micro-irrigation) is a great boost to the sector.
- A large amount of money is being put aside for a safety fund in railways.

► **Positive for Private Sector**

- The budget also confirms that public-private partnerships in all infrastructure sectors will be encouraged.
- End-to-end service by the railways will also clearly give rise to private sector participation in more railway activities.
- The new coastal connectivity projects will also give rise to new opportunities to the private sector.

► **Tax Proposals**

- Domestic transfer pricing regulations have been liberalized and their scope reduced to only the transactions involving an entity availing of profit-linked tax incentives.
- Minimum alternate tax credit extension from 10 years to 15 years partially offsets the impact of phasing out of incentives to infrastructure sector.
- Reduced tax of 5% on interest income of foreign currency borrowings and masala bonds has been extended to 2020.

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Fiscal Management

Context

After consistently experiencing the challenge of high fiscal deficit during the period 1996-2003, India adopted Fiscal Responsibility and Budget Management Act in 2004 that mandated the central government to pursue the target of revenue deficit to zero and fiscal deficit to 3 per cent of GDP (fiscal roadmap or targets). Although, India was moving towards this target till 2008, it faltered due to stimulus package in order to avoid consequences of the subprime crisis in the US and its adverse effects on income, output and employment. Further in 2010, the problem of fiscal management became more difficult due to recessionary impact of sovereign debt crisis in Europe. The central government failed to achieve the fiscal roadmap in 2010, 2012 and 2015 and now it has a plan to achieve it by 2018-19.

The government of India is sincerely trying to adopt prudent fiscal management and control fiscal deficit within the limits mandated by the FRBM Act. The fiscal deficit was 4.4 per cent in 2013-14 FY. The government has embarked on the path of consistent fiscal reduction and consolidation in 2014. Fiscal deficit was brought down to 4.1 per cent in 2014-15 and further to 3.9 per cent in 2015-16 and 3.5 per cent in 2016-17. Revised fiscal deficit estimates for 2017-18 are Rs. 5,95 lakh crore at 3 per cent of the GDP.

Announcements:

1. Fiscal Deficit Target:

The FM has projected the fiscal deficit target at 3.3 per cent of GDP for the year 2018-19.

2. Capping of Debt:

The FM proposed to accept key recommendations of the Fiscal Reform and Budget Management Committee relating to adoption of the Debt Rule and to bring down Central Government's Debt to GDP ratio to 40%. Government has also accepted the recommendation to use Fiscal Deficit target as the key operational parameter.

3. Direct Taxes:

There has been significant growth of 12.6% in direct taxes in last year and in the current year, the growth in direct taxes up to 15th January, 2018 is 18.7%. The average buoyancy in personal income tax of seven years preceding these two years comes to 1.1. In simple terms tax buoyancy of 1.1 means that if nominal GDP growth rate of the country is 10%, the growth rate of personal income tax is 11. Similarly, there has been huge increase in the number of returns filed by taxpayers. In financial year 2016-17, 85.51 lakhs new taxpayers filed their returns of income as against 66.26 lakhs in the immediately preceding year. By including all filers as well as persons who did not file returns but paid tax by way of advance tax or TDS, we can derive the figure of Effective Taxpayer Base. This number of effective tax payer base increased from 6.47 crores at the beginning of F.Y. 14-15 to 8.27 crores at the end of F.Y. 16-17.

4. Presumptive Income Scheme:

The government, recognizing the need for facilitating compliance, had liberalized the presumptive income scheme for small traders and entrepreneurs with annual turnover of less than Rs. 2 crores and introduced a similar scheme for professionals with annual turnover of less than Rs. 50 lakhs with the hope that there would be significant increase in compliance.

5. Post Harvest Value Addition:

In order to encourage professionalism in post-harvest value addition in agriculture, the budget has proposed to allow hundred per cent deduction to these companies registered as Farmer Producer Companies and having annual turnover up to Rs.100 crores in respect of their profit derived from such activities for a period of five years from financial year 2018-19. This measure will encourage "Operation Green" mission announced earlier and will give a boost to Sampada Yojana.

6. Employment Generation:

The additional deduction of 30 percent besides normal deduction of 100 per cent in respect of emoluments paid to eligible new employees who have been employed for a minimum period of 240 days during the year under Section 80-JJAA of the Income-tax Act. The last budget relaxed the minimum period of employment to 150 days in the case of apparel industry in order to encourage creation of new employment and the current budget has proposed to extend this relaxation to footwear and leather industry. The budget has further proposed to rationalise this deduction of 30% by allowing the benefit for a new employee who is employed for less than the minimum period during the first year but continues to remain employed for the minimum period in subsequent year.

7. Transaction in Immovable Property:

Income arising from capital gains and business profits arising out of transactions in immovable property, the circle rate charged "on whichever is higher" criteria has now been relaxed and no adjustment shall be made in a case where the circle rate value does not exceed 5% of the consideration.

8. Incentivising Micro, Small and Medium Entrepreneurs:

The budget has proposed to extend reduced corporate tax rate of 25% to companies who have reported Rs.250 crore in the financial year 2016-17. This will benefit the entire class of micro, small and medium enterprises which accounts for almost 99% of companies filing their tax returns. The estimate of revenue forgone due to this measure is Rs. 7,000 crores during the financial year 2018-19. The budget 2017-18 had proposed reduced corporate tax rate of 2 per cent to corporate units with a turnover of Rs. 50 crore.

9. Salaried Class:

In view of advantages offered in last three budgets, the individual tax payer has not been offered any tax benefit. Nevertheless, in order to provide relief to salaried taxpayers, the budget has proposed a standard deduction of Rs. 40,000/- in lieu of the present exemption in respect of transport allowance and reimbursement of miscellaneous medical expenses. However, the transport allowance at enhanced rate shall continue to be available to differently abled persons. Also other medical reimbursement benefits in case of hospitalization etc., for all employees shall continue. Apart from reducing paper work and compliance, this will help middle class employees even more in terms of reduction in their tax liability. This decision to allow standard deduction shall significantly benefit the pensioners also, who normally do not enjoy any allowance on account of transport and medical expenses. The revenue cost of this decision is approximately Rs 8,000 crores. The total number of salaried employees and pensioners who will benefit from this decision is around 2.5 crores.

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10. Senior Citizens:

Exemption of interest income on deposits with banks and post offices to be increased from Rs. 10,000/- to Rs. 50,000/- and TDS shall not be required to be deducted on such income, under Section 194A. This benefit shall be available also for interest from all fixed deposits. The budget has also raised the limit of deduction for health insurance premium and/ or medical expenditure from Rs. 30,000 to Rs. 50,000, under Section 80D. All senior citizens will now be able to claim benefit of deduction up to Rs. 50,000 per annum in respect of any health insurance premium and/or any general medical expenditure incurred. The budget has also raised the limit of deduction for medical expenditure in respect of certain critical illness from, Rs. 60,000 in case of senior citizens and from Rs. 80,000 in case of very senior citizens, to Rs.1 lakh in respect of all senior citizens, under Section 80DDB. These concessions will give extra tax benefit of Rs. 4,000 crores to senior citizens. In addition to tax concessions, the budget also proposed to extend the Pradhan Mantri Vaya Vandana Yojana up to March, 2020 under which an assured return of 8% is given by Life Insurance Corporation of India. The existing limit on investment of Rs. 7.5 lakh per senior citizen under this scheme is also being enhanced to Rs. 15 lakh.

11. Tax Incentive for International Financial Services Centre (IFSC):

The budget has proposed to provide two more concessions for IFSC. In order to promote trade in stock exchanges located in IFSC, it has proposed to exempt transfer of derivatives and certain securities by non-residents from capital gains tax. Further, non-corporate taxpayers operating in IFSC shall be charged Alternate Minimum Tax (AMT) at concessional rate of 9% at par with Minimum Alternate Tax (MAT) applicable for corporates.

12. Cash Transactions of Trusts and Institutions:

Audit trail of expenses incurred by trusts and institutions exceeding Rs. 10,000 in cash made by such entities shall be disallowed and the same shall be subject to tax. Further, in order to improve TDS compliance by these entities, the budget proposed to provide that in case of non-deduction of tax, 30% of the amount shall be disallowed and the same shall be taxed.

13. Rationalisation of Long Term Capital Gains (LTCG):

The budget has proposed to tax such long term capital gains exceeding Rs. 1 lakh at the rate of 10% without allowing the benefit of any indexation. However, all gains up to 31st January, 2018 will be grandfathered. For example, if an equity share is purchased six months before 31st January, 2018 at Rs. 100/- and the highest price quoted on 31st January, 2018 in respect of this share is Rs. 120/-, there will be no tax on the gain of Rs. 20/- if this share is sold after one year from the date of purchase. However, any gain in excess of Rs. 20 earned after 31st January, 2018 will be taxed at 10% if this share is sold after 31st July, 2018. The gains from equity share held up to one year will remain short term capital gain and will continue to be taxed at the rate of 15%. Further, the budget has also proposed to introduce a tax on distributed income by equity oriented mutual fund at the rate of 10%. This will provide level playing field across growth oriented funds and dividend distributing funds. In view of grandfathering, this change in capital gain tax will bring marginal revenue gain of about Rs. 20,000 crores in the first year. The revenues in subsequent years may be more.

14. Health and Education Cess:

The budget has proposed Education Cess to be levied on the tax payable to increase from the existing 3 per cent to 4 per cent to fund higher expenditure on health and education. This will enable government to collect an estimated additional amount of Rs.11,000 crores.

15. Amendment in Income Tax Act for Universal e-Filing of Returns:

FM proposed to amend the Income-tax Act to notify a new scheme for assessment where the assessment will be done in electronic mode which will almost eliminate person to person contact leading to greater efficiency and transparency. Government had introduced e-assessment in 2016 on a pilot basis and in 2017, extended it to 102 cities with the objective of reducing the interface between the department and the taxpayers. With the experience gained so far, the government is now ready to roll out the e-Assessment across the country which will transform the age-old assessment procedure of the income tax department and the manner in which they interact with taxpayers and other stakeholders.

16. Indirect Taxes:

On the Indirect Taxes side, this is the first budget after the roll out of the Goods and Service Tax. Excise duties to a large extent and service tax have been subsumed in GST, along with corresponding duties on imports. Therefore, the budget 2018-19 proposals are related to customs duties. Keeping substantial potential for domestic value addition in certain sectors, like food processing, electronics, auto components, footwear and furniture in view and to incentivize the domestic value addition and Make in India in some such sectors, the budget 2018-19 has proposed to increase customs duty on certain items such as mobile phones from 15% to 20%, and on certain parts of TVs to 15% with an aim to promote creation of employment. In case of cashew, for promotion of domestic processing, the budget has proposed to reduce customs duty on raw cashew from 5% to 2.5%.

17. Education Cess on Imports:

The budget has proposed to abolish the Education Cess and Secondary and Higher Education Cess on imported goods, and in its place impose a Social Welfare Surcharge, at the rate of 10% of the aggregate duties of Customs, on imported goods, to provide for social welfare schemes of the Government. Goods which were hitherto exempted from Education Cess on imported goods will, however, be exempt from this Surcharge. In addition, certain other goods are proposed to be levied surcharge at the rate of 3% of the aggregate duties of customs only.

18. Changes in Customs Act:

The budget has proposed to make certain changes to the Customs Act, 1962, to further improve ease of doing business in cross border trade, and to align certain provisions with the commitments under the Trade Facilitation Agreement. To smoothen dispute resolution processes and to reduce litigation, certain amendments are being made, to provide for pre-notice consultation, definite timelines for adjudication and deemed closure of cases if those timelines are not adhered to.

19. New Nomenclature for CBEC:

With the roll out of GST, the FM proposed to change the name of Central Board of Excise and Customs [CBEC] to Central Board of Indirect Taxes and Customs (CBIC). The necessary changes in law for this are proposed in the Finance Bill.

Terminologies

► FRBM Act

The Fiscal Responsibility and Budget Management Act, 2003 (FRBMA) is an Act of the Parliament to institutionalize financial discipline, reduce India's fiscal deficit, improve macroeconomic management and

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the overall management of the public funds by moving towards a balanced budget.

► **Revenue Deficit**

Revenue deficit is the gap between the consumption expenditure (revenue expenditure) of the Government (Union or the State Governments) and its current revenues (revenue receipts). It also indicates the extent to which the government has borrowed to finance the current expenditure.

► **Fiscal Deficit**

It is the difference between total revenue and total expenditure of the government and is termed as fiscal deficit. It is an indication of the total borrowings needed by the government. While calculating the total revenue, borrowings are not included.

► **Debt to GDP Ratio**

The debt-to-GDP ratio is the ratio between a country's government debt (a cumulative amount) and its gross domestic product (GDP) (measured in years). A low debt-to-GDP ratio indicates an economy that produces and sells goods and services sufficient to pay back debts without incurring further debt. Geopolitical and economic considerations - including interest rates, war, recessions, and other variables - influence the borrowing practices of a nation and the choice to incur further debt.

► **Presumptive Income Scheme**

Presumptive Taxation Scheme (PTS)—under which one can file the return and pay tax on the basis of 'presumed' income.

► **Capital Gains**

A capital gains tax (CGT) is a tax on capital gains, the profit realized on the sale of a non-inventory asset that was greater than the amount realized on the sale. The most common capital gains are realized from the sale of stocks, bonds, precious metals and property.

► **Corporate Tax**

A corporate tax is a levy placed on the profit of a firm to raise taxes. After operating earnings is calculated by deducting expenses including the cost of goods sold (COGS) and depreciation from revenues, enacted tax rates are applied to generate a legal obligation the business owes to the government. Rules surrounding corporate taxation vary greatly around the world and must be voted upon and approved by the government to be enacted.

► **Pradhan Mantri Vaya Vandana Yojana**

- PMVVY is a Pension Scheme announced by the Government of India exclusively for the senior citizens aged 60 years and above which is available from 4th May, 2017 to 3rd May, 2018.
- The Scheme can be purchased offline as well as online through Life Insurance Corporation (LIC) of India which has been given the sole privilege to operate this Scheme.
- Scheme provides an assured return of 8% p.a. payable monthly (equivalent to 8.30% p.a. effective) for 10 years.
- The scheme is exempted from Service Tax/ GST.
- On survival of the pensioner to the end of the policy term of 10 years, Purchase price along with final pension installment shall be payable.
- Loan upto 75% of Purchase Price shall be allowed after 3 policy years (to meet the liquidity needs). Loan interest shall be recovered from the pension installments and loan to be recovered from claim proceeds.

- The scheme also allows for premature exit for the treatment of any critical/ terminal illness of self or spouse. On such premature exit, 98% of the Purchase Price shall be refunded.
- On death of the pensioner during the policy term of 10 years, the Purchase Price shall be paid to the beneficiary.

► **International Financial Services Centre**

An IFSC caters to customers outside the jurisdiction of the domestic economy. Such centres deal with flows of finance, financial products and services across borders. London, New York and Singapore can be counted as global financial centres.

► **Services provided**

- Fund-raising services for individuals, corporations and governments.
- Asset management and global portfolio diversification undertaken by pension funds, insurance companies and mutual funds.
- Wealth Management.
- Global tax management and cross-border tax liability optimization, which provides a business opportunity for financial intermediaries, accountants and law firms.
- Global and regional corporate treasury management operations that involve fund-raising, liquidity investment and management and asset-liability matching.
- Risk management operations such as insurance and reinsurance.
- Merger and acquisition activities among trans-national corporations.

► **Long Term Capital Gains**

- A long-term capital gain or loss is the profit or loss on the sale of an investment that has been held for longer than a certain IRS-defined period of time.
- Government has introduced long-term capital gains tax of 10 percent if the gains exceed Rs 100,000 without allowing the benefit of indexation. However, all gains till 31st January 2018 will be grandfathered and short term capital gains remains unchanged at 15 percent.
- For example, if the equity share is purchased 6 months before 31st January 2018 at Rs. 100 and the highest price quoted on 31st Jan is Rs. 120, there will be no tax on the sale, if the stock is sold after 1 year. However, any gains in excess of Rs. 20 earned after 31st Jan 2018 will be taxed at 10 percent if this share is sold after 31st July 2018.
- Long-term capital gains were made tax exempt in 2004.

► **Cess**

- A cess imposed by the central government is a tax on tax, levied by the government for a specific purpose. Generally, cess is expected to be levied till the time the government gets enough money for that purpose.
- For example, a cess for financing primary education – the education cess (which is imposed on all central government taxes) is to be spent only for financing primary education (SSA) and not for any other purposes.
- A cess is different from the usual taxes like excise duty and personal income tax as it is imposed as an additional tax besides the existing tax (tax on tax).

► **Goods and Service Tax**

GST is one indirect tax for the whole nation, which will make India one unified common market. The GST intends to subsume most indirect taxes under a single taxation regime. GST is a single tax on the supply of

goods and services, right from the manufacturer to the consumer. Credits of input taxes paid at each stage will be available in the subsequent stage of value addition, which makes GST essentially a tax only on value addition at each stage. The final consumer will thus bear only the GST charged by the last dealer in the supply chain, with set-off benefits at all the previous stages. This is expected to help broaden the tax base, increase tax compliance, and reduce economic distortions caused by inter-state variations in taxes.

► **Trade Facilitation Agreement**

- The Trade Facilitation Agreement entered into force in February 2017.
- It is a multilateral global trade agreement including:
 - (a) Improving to the availability and publication of information about cross-border procedures and practices;
 - (b) Improved appeal rights for traders;
 - (c) Reduced fees and formalities connected with the import and export of goods;
 - (d) Faster clearance procedures; and
 - (e) Enhanced conditions for freedom of transit for goods.

Implications of the Announcements

- On macroeconomic policy for prudent fiscal management the targets set by the finance minister for fiscal deficit and debt capping, budget sends the message across that government's vision is clear and resolve is strong.
- The direct tax proposals of the government has led to some kind of disappointment for the middle class as long awaited widening of the tax brackets have not been done and some kind of concession in the form of standard deduction has also not been announced for the tax payers except in certain cases for transport and medical allowances. The next year being an election year and increased expenditure on infrastructure and welfare programmes, especially health did not offer much space to government for tax concessions.
- There was little possible to do with regard to indirect taxes because GST has subsumed major part of excise duties and service taxes. However, some steps have been taken in the realm of customs duties in order to give a push to domestic manufacturing and employment.

Conclusion

Overall it can be said that on fiscal management government has shown strong determination and resolve. The amount forgone as revenue has been finely balanced by additional mobilization through long term capital gains tax and education and health cess. Some of the proposed reforms such as universal e-filing of returns as well as monitoring cash transactions of trusts and institutions may go a long way in paperless filing and increased convenience for the tax payers and curbing black money by undesirable channelization of these funds. No budget ever is capable of catering to the wishes of all stakeholders in the economy, yet this budget has shown more inclination to address the sections who are poor, deprived or less empowered. The FM said in no ambiguous terms "While making the proposals in this year's Budget, we have been guided by our mission to especially strengthen agriculture, rural development, health, education, employment, MSMEs and infrastructure sectors of Indian economy."

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Defence Sector Budget

Defence Sector

India's defence budget for the coming financial year 2018-19 has been increased by 7.81 per cent to Rs 2.95 lakh crore over last year's Rs 2.74 lakh crore allocations.

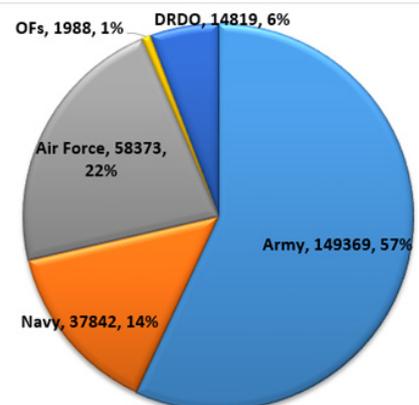
The defence outlay works out to just about 1.58 per cent of the GDP for 2018-19, the lowest such figure since the 1962 war with China wherein it was 1.65 per cent.

Out of Rs 2.95 lakh crore, Rs 1,95,947.55 crore has been allocated for revenue expenditure and Rs 99,563.86 crore for capital expenditure for the defence services and departments under the ministry. The capital outlay also includes the modernisation expenditure.

Among the three forces, Air Force is the only service whose modernisation budget has increased whereas both the Army and Navy have witnessed a decline in their respective budgets. The increase in the Air Force's budget is in view of its signing several mega contracts, including for the Rafale fighters, and Apache attack and Chinook heavy lift helicopters.

Share of the Defence Services

Among the defence services, the Indian Army with a budget of Rs. 1,49,369 crore accounts for the biggest share in defence budget, followed by the Air Force, Navy, Defence Research and Development Organisation (DRDO) and Ordnance Factories (OFs) (Figure). The lion's share for the Army is primarily because of its overwhelmingly numerical superiority over the sister services. Accounting for over 85 per cent of the uniformed personnel, bulk of the Army's budget goes into meeting the pay and allowances of the personnel. In 2017-18, only 17 per cent of Army's total allocation has been earmarked for capital expenditure. The comparative figures for the Air Force and Navy are 58 per cent and 51 per cent, respectively.



Share of Defence Services in Defence Budget 2

Make in India and Defence Production

Unlike in the previous budget, the Union Budget has not provided any specific incentives to push the Make in India initiative in the defence sector, although some industry-wide proposals have been promised. Among others, the government has promised to reduce income tax from present 30 per cent to 25 per cent for Micro, Small and Medium Enterprises (MSMEs) with an annual turnover of upto Rs. 50 crore. This is likely to benefit some 6000 MSMEs which are presently supplying parts, components and sub-systems to players like DRDO, Defence Public Sector Undertakings, OFs and the large private companies.

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Allocation for Border Roads Development Boards has been increased by 3% (from INR 2,708 crore to INR 2,785 crore) and grants to states for strategic roads have been increased by 60% (from INR 50 crore to INR 80 crore) for completion of the construction of the Rohtang Tunnel and the proposed construction of the Zozila Pass and Sela Pass tunnels.

► **Implications of these Changes**

- Increased allocation for R&D in the Budget is expected to boost indigenous defence manufacturing.
- Promotion of the Make in India initiative will help to develop and nurture defence production capabilities.
- Budget 2018 announcements meet the Government's strategic objective of strengthening road infrastructure on Indian borders.

Conclusion

The meagre increase of 7.81 per cent in the official defence budget is grossly inadequate especially in view of the vast voids existing in military capability and the diminished and incremental effect on modernisation and operational preparedness. There is a need to augment resources substantially, particularly under two critical heads of the defence budget – stores and capital procurement – which have come under severe pressure in the last several years with a huge negative consequence on India's defence preparedness.

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GS SCORE

SOCIAL SECTOR

Context

The estimated budgetary expenditure on health, education and social protection for 2018-19 is Rs.1.38 lakh crore against estimated expenditure of Rs. 1.22 lakh crore in 2017-18.

The allocation to social sector aims to assist and provide opportunity to every Indian to realize his/her full potential capable of achieving his/her economic and social dreams.

Government is implementing a comprehensive social security and protection programme to reach every household of old, widows, orphaned children, divyaang and deprived as per the Socio-Economic Caste Census.

Announcements

A. EDUCATION SECTOR

Government aims to assist and provide opportunity to every Indian to realize his/her full potential capable of achieving his/her economic and social dreams.

Government is devising a district-wise strategy for improving quality of education. Government wants to treat education holistically without segmentation from pre-nursery to Class 12.

The announcements are:

► **Improvement in quality of teachers**

- Integrated B.Ed. programme to be initiated for teachers, to improve quality of teachers.
- More than 13 lakh untrained teachers to get trained (under amended RTE Act).
- Technology will be used to upgrade the skills of teachers through the recently launched digital portal "DIKSHA".

► **Role of Technology in Education**

- Technology will be the biggest driver in improving the quality of education.
- Government has proposed to increase the digital intensity in education and move gradually from "black board" to "digital board".
- Technology will be used to upgrade the skills of teachers through the recently launched digital portal "DIKSHA".

► **Quality Education to Tribal Children**

- The Government is committed to provide the best quality education to the tribal children in their own environment.

Notes...

- By 2022, every block with more than 50% ST population and at least 20,000 tribal people to have 'Ekalavya' school.
- Ekalavya schools will be on par with Navodaya Vidyalayas and will have special facilities for preserving local art and culture besides providing training in sports and skill development.

► **Investments in Research and related Infrastructure**

- RISE (Revitalizing Infrastructure in School Education) - Scheme for revitalizing school infrastructure, with an allocation of 1 lakh crore over four years.
- Higher Education Financing Agency (HEFA) to be suitably structured for funding this initiative.

► **Setting up of Institutes of Eminence and Schools of Planning and Architecture (SPAs)**

- Government has taken major initiative of setting up Institutes of Eminence.
- There has been tremendous response to this initiative by institutions both in public and private sectors.
- Government proposes to set up two new full-fledged Schools of Planning and Architecture (SPAs).
- Additionally, 18 new SPAs would be established in the IITs and NITs as autonomous Schools.

► **Prime Minister's Research Fellows (PMRF) Scheme**

- 1000 Students pursuing B-Tech per year will be provided facilities to do PhD in IITs and IISc Bangalore with handsome fellowships.
- It is expected that these bright young fellows would voluntarily commit few hours every week for teaching in higher educational institutions.

► **Atal Tinkering Labs (ATLs) and Atal Innovation Mission (AIM)**

- Encouraging budding young innovators with Atal Tinkering Labs (ATLs) – ATLs are innovation play work spaces for students between class VI to XII.
- **Atal Innovation Mission (AIM):** 2,441 schools selected by AIM to establish ATLs and 700 + teachers trained.

Analysis

The government has shown the intent to look at education from a 'holistic' angle by measuring the learning outcome through a national survey of 20 lakh students creating holistic approach on education.

The Budget also constructively and positively looked at the two vital factors that did not get enough attention in the past. First is the improvement in the quality of teachers and second is the adoption of technology which will be the biggest driver for education in the future. Both these are key elements of a holistic education approach.

The total budget of the National Education Mission is up from Rs. 28,255 crore last year to Rs. 31,212 crores – an increase of a mere Rs. 3,000 crores that does not seem adequate for the ambitious plans of digitalising education as declared in the budget speech.

This allocation is especially worrying as not only is enrolment increasing every year (and there are still millions of children out of school) but only 62% of all schools have an electricity connection, only 24% have functional computers and only 9% have an electricity connection and a functional computer (DISE, 2015-16). Unless one is to assume that the rural electrification mission will also cover schools, it seems unlikely that Operation Digital Board will see much of a take off.

The government needs to liberalise the archaic rules governing education in India. This is essential to attract private investment into education and enable the setting up of a very large number of schools and colleges - particularly in under-served parts of the country.

B. Health sector

The initiatives are as follows:-

- ▶ **Health and Wellness Centre:** The National Health Policy, 2017 has envisioned Health and Wellness Centres as the foundation of India's health system. Under this 1.5 lakh centres will bring health care system closer to the homes of people. These centres will provide comprehensive health care, including non-communicable diseases and maternal and child health services. These centres will also provide free essential drugs and diagnostic services. The Budget has allocated Rs. 1200 crore for this flagship programme. Contribution of private sector through CSR and philanthropic institutions in adopting these centres is also envisaged.
- ▶ **National Health Protection Scheme:** The second flagship programme under Ayushman Bharat is National Health Protection Scheme, which will cover over 10 crore poor and vulnerable families (approximately 50 crore beneficiaries) providing coverage upto 5 lakh rupees per family per year for secondary and tertiary care hospitalization. This will be the world's largest government funded health care programme. Adequate funds will be provided for smooth implementation of this programme.
- ▶ The two health sector initiatives under Ayushman Bharat Programme will build a New India 2022 and ensure enhanced productivity, well being and avert wage loss and impoverishment. These Schemes will also generate lakhs of jobs, particularly for women.
- ▶ In order to further enhance accessibility of quality medical education and health care, 24 new Government Medical Colleges and Hospitals will be set up, by up-grading existing district hospitals in the country. This would ensure that there is at least 1 Medical College for every 3 Parliamentary Constituencies and at least 1 Government Medical College in each State of the country.

Analysis

According to NHP to say that the government is going ahead with the establishment of Health and Wellness Centres as the foundation of India's health system. These 1.5 lakh centres will bring health care system closer to the homes of people. These centres will provide comprehensive health care, including for non-communicable diseases and maternal and child health services. These centres will also provide free essential drugs and diagnostic services.

NHP aims to double the government spending from the existing 1.15 % of the GDP to 2.5 % by 2025, the budgetary allocation of Rs. 52,800 crore for health in 2018/19 is merely 5 per cent higher than the revised estimate of Rs. 50,079.6 crore, in 2017/18.

It is estimated that to meet the objectives of the policy, the governments - both central and state

Notes...

- together should increase their total allocation towards health to Rs 800,000 crore, up from the current Rs 200,000 crore by year 2025.

To achieve that, the central government health budget alone should increase at least 20 percent year-on-year for the next seven-eight years, the increase in this year's budget is 11 percent, half of what is needed.

Three major reasons for policy commitments failing to translate into results are:

- Inadequate budgetary allocations for family planning;
- Lack of coordination between the centre and states in the planning process, leading to inefficient spending; and
- Emphasis on target-driven measures that contradict India's commitment to population stabilisation through voluntary and informed choice and consent of citizens.

The family planning (FP) component receives merely 4% of the total budget available under the National Health Mission's Reproductive and Child Health (RCH) Flexi pool.

Analysis of data from the Financial Management Report (FMR) shows that in the financial year 2016-17, only 60.7% of the funds available for family planning were spent. Further examination also shows the skewed allocations for FP, despite policy decisions to promote spacing methods and improve the quality of care. This is evident from the fact that 64% of the 2016-17 FP budget was allocated to terminal and limiting methods of contraception, while just 3.7% was allocated for spacing. Even more worrying, 40% of the allocations for spacing methods were not utilised in 2016-17.

C. SOCIAL SECURITY AND PROTECTION PROGRAMME

Government is implementing a comprehensive social security and protection programme to reach every household of old, widows, orphaned children, divyaang and deprived as per the Socio-Economic Caste Census.

► National Social Assistance Programme (NSAP)

- Allocation on National Social Assistance Programme (NSAP) this year has been kept at Rs. 9975 crore.

► Pradhan Mantri Jan Dhan Yojana (PMJDY)

- Pradhan Mantri Jeevan Jyoti Beema Yojana (PMJJBY) - life insurance cover of Rs. 2 lakh on payment of a premium of only Rs 330/- per annum and Pradhan Mantri Suraksha Bima Yojana - personal accident cover of Rs 2 lakh on payment of a premium of only Rs. 12 per annum – has benefitted 5.22 crore families and 13 crore 25 lakh persons respectively.
- Now, all 16 crore accounts under PM Jan Dhan Yojana will be included under micro insurance and pension schemes.

D. EASE OF LIVING FOR COMMON MAN

Government has taken Ease of Doing business further by stress on 'Ease of Living' for the common man of this country, especially for those belonging to poor & middle class of the society.

► **Free LPG connections to women increased**

- Prime Minister's Ujjwala Scheme to make poor women free from the smoke of wood.
- Initially, government target was to provide free LPG connections to about 5 crore poor women. But now the target of providing free connection increased to 8 crore poor women.

► **Skill development and employment opportunities**

- National Apprenticeship Scheme with stipend support to give training to 50 lakh youth by 2020.
- Introducing system of fixed term employment for apparel and footwear sector.
- Setting up of model aspirational skill centres in every district of the country under Pradhan Mantri Kaushal Kendra.
- Proposed outlay of Rs. 7148 crore for the textile sector in 2018-19 to boost employment.
- Government will contribute 12% of the wages as EPF in all sectors for the next 3 years.

► **Allocation to SCs/STs**

- Allocation increased to Rs. 56,619 crore for SCs and Rs. 39,135 crore for STs.
- The fund will be used in programmes aimed at economic and social advancement of hard working people of SCs and STs.

► **Social security**

- All 16 crore accounts under PM Jan Dhan Yojana will be included under micro insurance and pension schemes.
- EPF contributions from women employees brought down from 12% to 8% for first 3 years.
- Govt. gave Rs. 9,975 crore for social security schemes for the next fiscal year.
- Standard deduction of Rs. 40,000 introduced in lieu of transport and medical reimbursements.

► **Construction of more toilets**

- Govt plans to construct 2 crore more toilets under Swachh Bharat Mission.
- Under this mission, Government has already constructed more than 6 crore toilets.
- The positive effect of these toilets is being seen on the dignity of ladies, education of girls and the overall health of family.

► **To achieve inclusive society**

- Government has identified 115 aspirational districts taking various indices of development in consideration.
- The Government aims at improving the quality of life in these districts by investing in social services like health, education, nutrition, skill upgradation, financial inclusion and infrastructure like irrigation, rural electrification, potable drinking water and access to toilets at an accelerated pace and in a time bound manner.
- These 115 districts to become model of development.

► **A step forward towards a Digital Society**

- Allocation to Digital India scheme doubled to Rs. 3,073 crore.

Notes...

- WiFi and CCTVs to be provided in all railway stations and trains.
- Allocation of Rs. 10,000 crore to connect 5 lakh Wifi Hotspots to 5 crore rural citizens.
- Custom duty on mobile phones increased from 15% to 20% to boost domestic manufacturing.
- To establish a national program in the areas of Artificial Intelligence.

► **Providing quality life to Senior Citizens**

- No TDS on fixed deposits and post office deposits upto Rs. 50,000.
- Benefit of Rs. 50,000 per annum exemption for medical insurance.
- Limit of deduction for medical expenditure raised to Rs. 1 lakh for critical issues.
- Increase in the limit of investment to Rs. 15 lakh under PMVVY (Pradhan Mantri Vaya Vandana Yojana).

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