Union Budget FY17-18

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Budget - A breath of fresh air

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- The Union Budget presented today may not have pleased many but in our view it was strong on fiscal prudence, rural development, affordable housing thereby providing the much needed impetus for capital expenditure.
- By maintaining status quo on the most feared aspect of capital gain tax on equity transactions, markets have given a THUMBS UP on the budget day as government borrowing has been contained at reasonable levels despite the record outlays on infrastructure development, Railways, Roads & Highways and Defence.
- The Centre has spelt out a clear agenda for its FY18 Budget:

Transform the quality of governance & lives of Indian citizens

Energize various sections of society and unleash their true potential

Clean the country from corruption, black money & non-transparent political funding

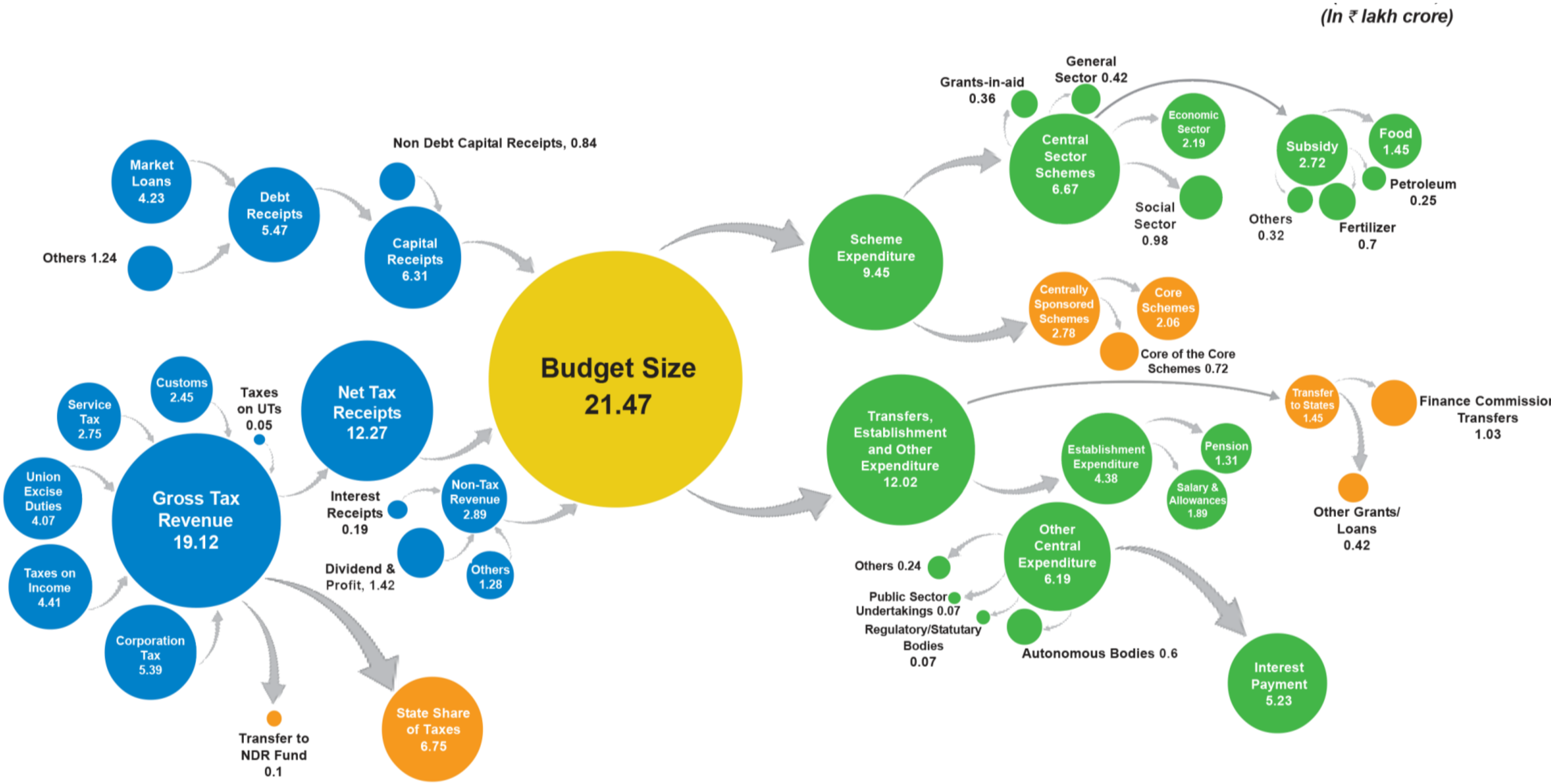
7.0%
World Bank 2017 India GDP

3.4%
Dec '16 CPI

0.3%
H1FY17 CAD to GDP Ratio

$361 bn
Forex Reserves

36 %
HIFY17 FDI YOY Growth



(In ₹ lakh crore)
Market Loans 4.23
Others 1.24
Debt Receipts 5.47
Non Debt Capital Receipts, 0.84
Capital Receipts 6.31
Customs 2.45
Service Tax 2.75
Taxes on UTs 0.05
Union Excise Duties 4.07
Gross Tax Revenue 19.12
Taxes on Income 4.41
Corporation Tax 5.39
Transfer to NDR Fund 0.1
State Share of Taxes 6.75
Net Tax Receipts 12.27
Interest Receipts 0.19
Non-Tax Revenue 2.89
Dividend & Profit, 1.42
Others 1.28
Budget Size 21.47
Scheme Expenditure 9.45
Grants-in-aid 0.36
General Sector 0.42
Central Sector Schemes 6.67
Economic Sector 2.19
Social Sector 0.98
Subsidy 2.72
Food 1.45
Petroleum 0.25
Others 0.32
Fertilizer 0.7
Centrally Sponsored Schemes 2.78
Core Schemes 2.06
Core of the Core Schemes 0.72
Transfers, Establishment and Other Expenditure 12.02
Transfer to States 1.45
Finance Commission Transfers 1.03
Other Grants/ Loans 0.42
Establishment Expenditure 4.38
Pension 1.31
Salary & Allowances 1.89
Other Central Expenditure 6.19
Others 0.24
Public Sector Undertakings 0.07
Regulatory/Statutory Bodies 0.07
Autonomous Bodies 0.6
Interest Payment 5.23

Infrastructure

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- Total outlay for transportation sector including rail, roads, shipping at ₹ 2,41 lakh cr, which is about 9% higher than last year. Beneficiaries - IRB Infrastructure, ITNL and L&T.
- Allocation for highways increased from ₹ 0.58 lakh cr to ₹ 0.65 lakh cr in FY 2017-18.
- Under PMGSY, ₹ 0.27 lakh cr allocated for road building in FY17-18. In FY16-17, road building accelerated at a pace of 133 kms/day v/s 73 kms/day average during 2011-2014. Beneficiaries - road construction companies & CV makers.
- Allocation of ₹1.31 lakh cr as capex towards Railways. Beneficiaries - KEC, Texmaco, Titagarh Wagons, Container Corporation, Stone India, Hind Rectifiers, Escorts, Dalmia Cement and Gabriel.
- Railway lines of 3,500 kms expected to be commissioned by 2017-18, while 500 stations will be provided with escalators. Steel companies and Bearings companies stand to benefit from this move.
- 7000 stations to be provided with solar power in the medium term, while all coaches of Indian Railways to be fitted with bio toilets.by 2019.
- Select airports in Tier 2 cities will be taken up for operation and maintenance in PPP mode. Beneficiaries include airport development companies such as GVK and GMR.

Infrastructure

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- High speed Broadband connectivity to be made available to 1,50,000 villages under BharatNet program. Sterlite Technologies and telecom companies such as Bharti and Idea who have a strong rural presence would be key beneficiaries.
- A target of 100% rural electrification 1st May 2018 would benefit companies like REC, PFC , Havells, Bajaj Electricals & KEC International .among others.
- Also under the Pradhan Mantri Awaas Yojana, the allocation is increased from ₹ 0.15 lakh cr to ₹ 0.23 lakh cr with a target to complete ₹ 1 lakh cr by 2019.
- Affordable Housing to get Infrastructure Status : Housing Finance companies are the biggest beneficiaries of this move.
- Under the scheme for profit linked income tax deduction for promotion of affordable housing, carpet area instead of built up are of 30 and 60 Sq. mtr will be counted.
- Reduction in the holding period for computing LTCG from transfer of immovable property from 3 years to 2 years. Also, the base year of indexation is proposed to be shifted from 1.4.1981 to 1.4.2001 for classes of assets including immovable property.

Rural Push

- Budget 2017-18 primarily focused on the Agricultural & Rural Sector with certain provisions having far reaching positive impacts which will go a long way in the development of this sector which is expected to grow at over 4% this year.

- Keeping in mind the objective to double farm income in next five years, the agricultural credit has been targeted at ₹ 10 Lakh Crore.

- The government will be supporting NABARD for computerization and integration of all 63,000 functional Primary Agriculture Credit Societies (PACS) with the Core Banking System of District Central Cooperative Banks at an estimated cost of ₹ 1900 crores and time period of 3 years. This shall ensure seamless flow of credit to small farmers and bring in much needed transparency.

- A budget provision of ₹ 9000 crore has been made to increase the coverage under Fasal Bima Yojana scheme from 30% of cropped area in 2016-17 to 40% in 2017-18 and 50% in 2018-19. More than 1 million farmers have been given cover under this scheme, making India the third largest agriculture insurance market in the world after US and China.

- The Long Term Irrigation Fund already set up in NABARD will be augmented by 100% to take the total corpus of this Fund to ₹ 40,000 crores. Also, a dedicated micro irrigation fund which will be set up in NABARD to achieve the goal, “per drop more crop”, with an initial corpus of ₹ 5,000 crore.

Rural Push

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- Through these two measures, area under irrigation will increase and the efficiency of irrigation will improve since India has18 per cent of the world's total population, but only 4 per cent of the world's total fresh water resources.
- Dairy Processing and Infrastructure Development Fund will be set up in NABARD with a corpus of ₹ 2000 crores and will be increased to ₹ 8000 crores over 3 years. Such a move is critical in bringing sustainability to agriculture as dairy is an important alternate mode of income for the farmers.
- Allocation to MNREGA the highest ever at ₹ 48,000 crores in 2017-18.
- Coverage of National Agricultural Market (e-NAM) to be expanded from 250 markets to 585. Assistance up to ₹ 75 lakhs will be provided to every e-NAM. The move is seen as a radical step to reform commodity trading as it will end the uncertainty in derivative markets. The move will help farmers get the best price for their produce as well as help them hedge their produce on derivatives platform to reduce risk and maximize benefits.
- Total allocation for Rural, Agriculture and Allied sectors is ₹ 1,87,223 crores which is 24% higher than last year .The Finance Minister has focused on 'income security' of the farmers and measures to increase their production and productivity and to deal with post-harvest challenges.
- Companies that would benefit from this rural push would be NBFCs, M&M, Escorts, UPL, Coromandel, VST Tillers, Jain irrigation, EPC Industrie, Rallis India, GSFC, GNFC, Deepak Fertilizers, Aries Agro, among others.

Fiscal Prudence

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- With total expenditure in the Budget placed at ₹ 21.5 lakh cr, Plan-Non Plan classification has been abolished and focus now is on Revenue & Capital expenditure. Allocation for Capital expenditure has been stepped up by 25.4% over the previous year.
- The total resources being transferred to the States and the Union Territories with Legislatures is ₹ 4.1 lakh cr against ₹ 3.6 lakh cr over the previous year. For Defence expenditure excluding pensions, a sum of ₹ 2.7 lakh cr including ₹ 0.9 lakh crores for Defence capital has been provided for in the budget, with allocation for Scientific Ministries standing at ₹ 0.4 lakh crore.
- FRBM review committee's report where it has favored Debt to GDP of 60% by 2023 & recommended 3% fiscal deficit for the next 3 years has been acknowledged by the FM. Fiscal consolidation is expected to be adhered to with FY18 fiscal deficit pegged at 3.2% of GDP
- Due care has been taken to limit the net market borrowing to ₹ 3.48 lakh cr after buyback, much lower than ₹ 4.3 lakh cr of the previous year. The Revenue Deficit for next year is pegged at 1.9% , against 2% mandated by the FRBM Act.

While the 25 .4% increase in the allocation in capex is expected to have multiplier effects on growth, greater focus on quality of expenditure & higher tax realisation from the huge cash deposits in banks is expected to help the Centre in maintaining prudent fiscal discipline.

Financial Inclusion

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- Training programme SANKALP is expected to be launched at a cost of ₹ 4,000 cr with another ₹ 2,200 cr to be expended at the next phase of industry-centric programme STRIVE. A scheme for creating employment in leather & footwear industries on the lines of the textiles scheme to is be launched as well.

- For the welfare of Women & Children under various schemes across all Ministries, the allocation has stepped up from ₹1. 6 lakh cr in FY17 to ₹ 1.8 lakh cr in FY18.

- Allocation for the welfare of Scheduled Castes has been stepped up from ₹ 0.4 lakh cr in BE 2016-17 to ₹ 0.5 lakh cr in FY18, representing an increase of about 35%. The allocation for Scheduled Tribes has been increased to ₹ 0.3 lakh cr and for Minority Affairs to ₹ 4,195 cr.

- While legislative reforms will be undertaken to simplify, rationalize & amalgamate the existing labor laws into 4 Codes, a pilot of Aadhar based Smart Cards for senior citizens containing their health details will be introduced in 15 districts. LIC will also implement a scheme to provide assured pension for them with a guaranteed return of 8% per annum for 10 yrs.

With record allocations across the board, especially in rural centric schemes, the Centre is looking to bring 1 crore households out of poverty & make 50,000 gram panchayats poverty free by FY19, which could stimulate consumption especially in rural India.

Financial Sector Reforms

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- While the 25 year old FIPB is to be abolished in FY18 & further liberalization of FDI policy is under consideration, there is a proposal to create an integrated public sector oil major to match the performance of international & domestic private sector oil & gas companies.
- In line with Indradhanush roadmap, ₹ 10,000 cr has been provided for recapitalization of banks in FY18 with the lending target under Pradhan Mantri Mudra Yojana doubled to ₹ 2.4 lakh cr. Priority under PMMY to be given to Dalits, Tribals, Backward Class & Women.
- 2 new schemes for promoting BHIM app & a merchant version of Aadhar enabled payment system will be launched by the Centre to promote increasing use of digital transactions with target of 2,500 cr digital transactions through UPI, USSD, Aadhar Pay, IMPS & Cards for FY18.
- The budget has given a mandate that all government receipts beyond a prescribed limit would be through digital means and a payments regulatory board would be created in the RBI. No transaction above ₹ 3 lakh would be permitted in cash subject to certain exceptions.
- A series of indirect tax exemptions would be given to miniaturized POS card readers, finger print readers & scanners and iris scanners. Parts & components for manufacture of such devices are to be exempted as well to encourage domestic manufacturing of these devices.

The Centre is looking to leverage technology in a big way to accelerate the adoption of digital transactions with multiplicative benefits of promoting financial inclusion, curbing the menace of parallel economy & a wider tax base augmenting its tax revenues.

Corporate Tax Reforms

- For the purpose of carry forward of losses in respect of start-ups, the condition of continuous holding of 51% of voting rights has been relaxed subject to the condition that original promoter/promoters holdings continue. The profit linked deduction available to the start-ups for 3 years out of 5 years is being changed to 3 years out of 7 years.
- While carry forward of MAT has been extended upto a period of 15 years instead of 10 years in the previous years, income tax for smaller companies with annual turnover upto ₹ 50 crore has been cut to 25%. These small companies represent 96% of the 6.94 lakh companies filing returns as on assessment year 2015-16.
- Allowable NPA provisions for banks increased from 7.5% to 8.5% while interest receivable on actual receipt instead of accrual basis in respect of NPA accounts of all non-scheduled cooperative banks would be taxed at par with scheduled banks.
- Basic customs duty on LNG from 5% to 2.5%, benefiting companies such as Petronet LNG.
- Presumptive income for turnovers upto ₹ 2 cr has been reduced from 8% to 6% in respect of turnover by non-cash means.
- It was clarified that the GST Council has finalized its recommendation on almost all the issued based on consensus on the basis of 9 meetings held.

The FY18 Budget exhibited a clear effort to protect MSME interests over big corporates as it is the MSMEs that are the real growth & employment generators in the Indian economy.

Other Important Provisions

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- Maximum amount of cash donation that a political party can receive has been capped at ₹ 2,000 from one person, while an amendment to the RBI act is being looked at to enable the issuance of bearer electoral bonds.

- Existing rate of taxation for individual assesses between ₹ 2.5-5 lakhs has been reduced to 5% from present rate of 10% with the existing benefit of rebate available to the same group of beneficiaries is being reduced to ₹ 2,500 available only to assessees upto income of ₹ 3.5 lakhs.

- While the disinvestment target for FY18 is ₹ 0.73 lakh crs with priority on CPSE ETF route, FPI Category I & II are exempt from indirect transfer provision. The FM also clarified that indirect transfer provision shall not apply in case of redemption of shares or interests outside India as a result of or arising out of redemption or sale of investment in India which is chargeable to tax.

- The Centre is also looking to leverage the extensive network of the Indian Post by utilising the head post offices as front offices for rendering passport services.

- The number of tribunals would be rationalized and merged wherever appropriate

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