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Policy Brief

Budget 2016
Commentary and Summary

By

PIF Research Team

March 2016

PIF/2016/BUD/PB/01

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Commentary

Commentary - Union Budget 2016-17

The Union Budget of 2016-17 is one which has focused largely on the rural economy, the marginalized and on infrastructure. Many have termed it as a "political" budget, one that has been crafted keeping in mind the next general election. Notwithstanding the prefixes, this budget has focused on the marginalized section, the rural economy and infrastructure. This is a budget that would have tremendous impact on economic growth if implemented and executed well. This budget focuses on many core structural issues that need to be addressed.

That the Finance Minister has decided to stick to his fiscal targets is encouraging. However, what remains to be seen is the collective impact of OROP, the 7th Pay Commission and any extra capitalization of banks that is over and above the allocated amount. Any rise in oil prices may also impact the fiscal numbers, but for now, 3.5 per cent is encouraging.

This budget has in some ways gone back to the basics of food and shelter - agriculture and infrastructure.

The Hits….

This has been one of the first budgets that has paid attention to agriculture in a manner that is beyond subsidies and minimum support prices. The fact that this budget has set aside a sizeable allocation to irrigation and water table management is a good sign. This budget has also finally provided the necessary policy stimulus for private players to participate more actively in the agenda towards building affordable housing for all.

Infrastructure

The budget is positive for the infrastructure sector, with a good amount of allocations for development of services. The allocation under Pradhan Mantri Gram Sadak Yojana (PMGSY) has been increased to INR 19,000 crore with a focus on connect remaining 65,000 eligible habitations by 2019. This would help in achieving one of the Sustainable Development Goals of reducing Poverty over the years. As a measure to improve trade services, new greenfield ports have been proposed to be developed on the east and west coasts. The scheme proposed for revival of under-served airports will help contribute to improving regional connectivity, which will go a long way in boosting domestic industry.

Affordable Housing

The Housing for All by 2022 scheme was approved by Cabinet and introduced in the 2014-15 budget. However, there was no clear policy direction outlined to meet the target of constructing 2 crore houses in the next 7 years. This issue has finally been addressed in this Union Budget. The 100 per cent deduction of tax on profits on undertaking housing projects is good for builders. This is also the first time that affordable housing has been defined on the basis of size and not value, which allows for greater flexibility to builders. These measures will incentivize private players to step into the arena and help increase the supply of affordable housing, which has been the major hurdle given the rising demand. Since the government is stressing this initiative, it could encourage more people to become home-owners. The deduction of additional interest of INR 50,000 per annum for loans up to INR 35 lakh sanctioned in 2016-17 for first time home buyers, where house cost does not exceed INR 50 lakh is an example of how the government is paying attention to the needs of potential home-buyers as well.

Energy

The budget focusses on increased power generation from nuclear sources and INR 3,000 crore has been earmarked for the same. This would ensure a higher share of nuclear energy in India's Energy Mix, where 70% of the electricity comes from Thermal Power plants. As a measure to reduce the imports bill on hydrocarbons and mine its own reserves, the government has rightly put forward a comprehensive plan to be implemented in the next 15-20 years for exploiting hydrocarbons and has made a provision of incentives for deep water gas explorations. The deep water gas will get a calibrated market freedom and a pre-determined ceiling price based on landed price of alternate fuels.

Environment

The announcement of a programme for sustainable management of ground water is a welcome move by the government. This will help alleviate the existing problems of consumable water scarcity in urban areas. This investment on ground water management is an environmentally sound move and will prove to be important in the longer run. This is the first time that any budget has taken cognizance of the fact that greater attention needs to be paid to ground water management. This may well be the first step towards better water management.

Organic manures have proven to be the safest and most long lasting soil improvisers. There are no harmful and polluting effects on the soil and plants from the use of organic manure. As natural fertilizers which consist of natural and bio-degradable components and elements, they can be easily worked upon by little microorganisms and thus reach the crops and plants in a safe manner. This is why the initiative of creating 10 lakh compost pits for the production of organic manure is both required and well-timed. The production of organic manure will enable the farmers to depend less on fertilizers and will help in cultivation without disturbing the fertility of the land. If this initiative and the use of organic farming methods catch on, it will help contribute to the environmental health of the agricultural land of India.

The government has announced that it will promote organic farming through the 'Paramparagat Krishi Vikas Yojana' (PKVY). Organic farming has been going on in India for a long time. Promoting organic farming, will contribute to lower use of synthetic inputs (such as fertilizers, pesticides, hormones, feed additives etc.) and to the maximum extent feasible rely upon crop rotations, crop residues, animal manures, off-farm organic waste, mineral grade rock additives and biological system of nutrient mobilization and plant protection. Hence, it is often referred as the most sustainable agricultural practice. Through PKVY, organic farming can be spread across different parts of the country and can enable new ways of farming with less dependence on climatic factors.

With increasing pollution levels in our country, the announcement of the infrastructure cess on certain vehicles may help in reducing the number of cars on the roads. A considerable amount of pollution control can be achieved through this step. The lack of a proper public transportation system, may adversely affect how the public will welcome this move. However, allowing the entrance of private players into the passenger vehicle sector, by making provisions for this in the Motor Vehicles Act with requisite amendments is a good move. This could prove to be a boon in managing passenger vehicle traffic as well as encourage innovation (through competition) which is required in dealing with the twin problems of congestion and pollution.

The best proposed point in the Union Budget is the renaming of the 'Clean Energy Cess' as the 'Clean Environment Cess'. This cess had been conceived based on the Polluter Pays Principle (PPP), which requires that the costs of pollution be borne by those who cause it. However, limiting the scope of the cess to only clean energy would not have created the requisite impact. However, by the change in the name, one is hopeful that the corpus collected through the cess can now be disbursed towards a wider array of projects that are environmentally important.

Agriculture

Much emphasis has been laid on the agriculture sector. The Finance Minister has promised to double farm income in five years which means that the sector would have to grow faster than the rest of the economy. This is certainly only an easy task considering the fact that agricultural productivity and growth has stagnated for many years now. To ensure this, some major announcements were made. Listed below are the major announcements in the agricultural sector and its implications on the economy.

Another important announcement in the budget under agriculture has been that of creating a unified e-platform that would connect all major spot markets in the economy. If this initiative is implemented successfully, this alone could ensure a significant jump in farmers' incomes. Currently farmers are dependent on local markets or those in the immediate vicinity for the sale of their produce. This also means that they are often at the mercy of intermediaries and arbitrary price fixing of commodities. Very often this results in farmers not obtaining the correct market price for their produce. It is a monopsony and the farmer loses almost always. An e-platform would ensure immediate access to other markets, but more importantly it will lead to better price discovery. Arbitrage opportunities will diminish and the farmer is more likely to get his due.

Following the successful implementation of the LPG subsidy through direct benefit transfer (DBT), the move to roll out fertilizer subsidies on a pilot basis through DBT is an important step towards tightening the mechanism of subsidy disbursement. Fertilizer subsidies are usually to the tune of INR 70,000 crores. While the rationale behind these subsidies is certainly a point of debate, what is true is that there are many transmission issues when it comes to handing out these subsidies. While DBT may not necessarily be the solution to India's mounting subsidy bill, it would at least lower pilferage and improve efficiency, which may in the long run, result in a lower subsidy bill!

The budget decision to allow 100 per cent foreign direct investment (FDI) on marketing of food products made in India will bring some cheer to foreign retailers in India. Though no such commitments have been made on the retail front, yet the proposed move will benefit farmers, give a fillip to the food processing industry and create vast employment opportunities. Hopefully, the success of this model, will pave the way for opening up of other sectors as well.

Irrigation

This is the first time that any budget has paid significant attention to water. Apart from setting aside a sizeable allocation to ground water management, this budget has also focused on irrigation. For too long, farmers' dependence on good monsoons has been the bane of their existence. The over dependence on monsoon and the lack of good irrigation facilities and technologies have led to stagnation of agricultural productive, sometimes driving productivity downward and in extreme cases causing farmer suicides. An irrigation dedicated long term fund under NABARD and the generous allocations and programmes are likely to be the policy interventions that can drive agricultural productivity and therefore farmer income higher.

Banking

The FM has announced that to support public sector banks (PSBs) in their effort to deal with non-performing assets (NPAs) and support credit growth, an amount of INR 25,000 Crore will be allocated towards recapitalisation of PSBs. The FM also assured that if need be, the Government will raise more funds for the same. While the initial announced amount is nowhere close to industry expectations, the government is expected to step up and pump in more money as the time and need arises, especially as banks have high requirements of capital to meet BASEL III norms. Under a massive clean-up exercise directed by the Reserve Bank of India, banks made proactive provisions on stressed loans. The additional provision is estimated to be around INR 70,000 crore spread over the December and March quarter. The banks are on course to make more losses in the current quarter as most of them have covered only half of the stressed assets identified by RBI. Moreover, numbers from the private banks have not yet truly emerged and while, the NPAs from private players may not have a direct bearing on captalisation requirement from the government, the indirect impact may be additional stress on public sector banks.

Another important announcement has been around the setting up of the Bank Bureau Board. This is in line with the recommendations made by the Nayak Committtee report. The budget also mentions that the Board will be in charge of putting in place the framework for bank consolidation. Bank consolidation has been a much awaited policy initiative. Although the Ministry of Finance has been announcing various policy initiatives, in the form of Indradhanush, policy direction around bank consolidation has been absent. While bank consolidation may not be the solution to the current problems relating to stressed assets, it is certainly an imperative to increase competitiveness of the banks.

As a first step towards this, the government has announced that it will be working towards reducing its shareholding to below 50 per cent in the case of PSBs. The FM has indicated that the process of reducing shareholding in IDBI Bank has already begun. The move comes as a pleasant surprise to most investors who are looking to invest in the bank's qualified institutional placement (QIP) offer. A QIP offer is a sale of securities to institutional investors by listed firms.

Insurance

The FM has announced that the government is willing to list the General Insurance PSUs in the stock exchanges. This comes as a long awaited reformative move as currently none of the four general insurance companies in public sector is listed on any of the exchanges. This is also important from the point of view that insurance companies have had trouble raising capital due to reduced profitability. This will provide an effective way of raising capital for these four companies.

To promote financial inclusion and penetration of health insurance, a proposal has been made to introduce a new health protection scheme among financially poor and economically weak, providing such families with health cover up to Rupees One Lakh per family. For senior citizens above sixty years and above belonging to this category, an additional top up package up to INR 30,000 will be provided. Despite the success of RSBY in India, healthcare in India is yet not affordable to many. While universal healthcare continues to remain an elusive concept, this may take us one step closer to the goal.

Pensions

The FM has proposed to provide exemption to one time portability from a recognised provident fund or superannuation fund to National Pension Scheme, apart from providing partial tax exemption on maturity. This is considered to be a shot in the arm to the National Pension Scheme. In the earlier system, if an employee wished to shift from EPF to NPS, the withdrawn amount was taxed.

It has been proposed that the exemption under the recognised provident fund and superannuation fund will be limited to 40 per cent of the accumulated amount arising out of contributions made in such funds on or after 01.04.2016, although this won't be applicable to employees earning a monthly salary up to INR 15,000. This has been seen as a dissenting move with most salaried class and employee associations. But this can be also considered as a baby step for the economy in becoming a socially secure economy. Since pension schemes are aimed at financial protection in old age. This move will prevent beneficiaries of these schemes, from withdrawing the whole amount in one go at the first opportunity and instead rely on a monthly payout which is the fundamental objective of pension scheme.

Capital Markets

Investment limit for foreign entities in Indian stock exchanges will be enhanced from 5 to 15 per cent on par with domestic institutions. This will enhance global competitiveness of Indian stock exchanges and accelerate adoption of best-in-class technology and global market practices. This change in rules may pave the way for foreign exchanges to increase their stake in Indian counterparts. Singapore Exchange Ltd and Deutsche Boerse AG currently hold 4.9 per cent each in BSE Ltd. In the National Stock Exchange (NSE), the top foreign shareholders include Gagil FDI Ltd (Cyprus), GS Strategic Investments Ltd, SAIF II SE Investments Mauritius Ltd and Aranda Investments (Mauritius) Pte Ltd. They hold 5 per cent each.

To deepen the corporate bond market in India the government has decided to focus on improving the structural framework of the bond market in India. Steps like LIC setting up a dedicated fund to provide credit enhancement to infrastructure projects, issuance of guidelines by RBI encouraging large borrowers to use capital market, diversifying basket of foreign portfolio investors, starting an electronic auction platform for repo market in corporate bonds etc. will play an important role in developing the infrastructural framework in India. However, what ails the corporate bond market in India is no the lack of infrastructure but the lack of liquidity. The lack of retail demand and a stymied industry demand for bonds makes the product very unattractive. The lack of liquidity also compromises the returns. The lack of demand for bonds has effectively cut off an important source of funding for economic growth, especially for sectors such as infra that are starved for long term funds. While the recent budget announcements are welcomed, it will be hard to imagine that these factors would increase liquidity and demand for bonds. Concomitant with structural initiatives, the government must incentivise the retail customers to invest in bonds. A natural push would have been to provide tax benefit to investors of infra bond and exclusion of such bonds from long term capital gain tax.

Gold

It is proposed to provide that redemption by an individual of Sovereign Gold Bond issued by Reserve Bank of India under Sovereign Gold Bond Scheme, 2015 shall not be charged to capital gains tax. It is also proposed to provide that long terms capital gains arising to any person on transfer of Sovereign Gold Bond shall be eligible for indexation benefits. This step is considered to be an excellent move towards monetisation of gold in the country as more retail and institutional investors are expected to move out of dealing in physical gold.

It is proposed to provide that interest earned on Deposit Certificates issued under Gold Monetisation Scheme, 2015 and capital gains arising from them shall be exempt from tax. This comes as a good initiative to boost the yet to take-off Gold Monetisation Scheme.

…..And The Misses

The misses have been rather significant- defence and, climate change and renewables.

Defence

This Union Budget's overall allocation to defence has increased by less than a total of Rs. 3,000 crore. It comes as no surprise that the trend of resource requirements outlined by the defence services is met with ever lower allocations. The revenue expenditure allocated for defence stands at Rs. 1,62,759 crore and capital expenditure stands at a meagre Rs. 86,340 crore, both giving a total of Rs. 2,49,099 crore which is barely a couple of thousand crores above the defence allocation total of Rs. 2,46,727 crore for 2015-16. The two major reasons for the slight increase in revenue expenditure is the inclusion of the One Rank, One Pension (OROP) and interim provisions made for the implementation of the 7th Central Pay Commission (CPC). However, the adjustment of this seems to have been made against decreased capital expenditure allocation for defence. That capital expenditure has been slashed by approximately 10 per cent poses a serious threat to both the modernization projects undertaken by the services as well as the ability of the country to keep up with its security needs. For a country that is keen to step up its domestic defence production and eventually defence exports, there is a complete lack of policy initiatives or even dirction. Defence production today largely lies with many small and medium enterprises spread across the country, and in the hands of few defence PSUs whose efficiency has been questioned repeatedly. That the budget speech had no mention of defence and vision for defence production is certainly one of the biggest misses of this budget.

Climate Change and Renewables

Climate Change has still not featured in the budget. Combating climate change will require public finance as private green finance is not readily available in India. There should have been a clear blueprint of fund allocation and more importantly disbursement targets for climate change related projects based on the commitment that India has made at the recent Paris Summit. Another significant black hole in the budget has been the lack of incentives for the procurement and production nor tax exemptions or investment plans for the renewable energy sector. If we are to take any of the renewable targets that India has laid out seriously, the renewables sector would need a lot more attention. There was no mention of incentives for promoting Green Bonds in India either.

Summary

Highlights of Union Budget 2016-17

1. Agriculture and Farmers' Welfare

- The aim is to double farmer income by 2020.
- The total allocation for agriculture and farmers' welfare stands at Rs 35,984 crores. (Rs. 17,000 crore over the next year, with a projected Rs. 86,500 crore over the next 5 years.)
- Irrigation is key to increasing agricultural production. Only 40% of cultivated land is covered by irrigation, therefore 28.5 lac hectares are to be brought under irrigation in Mission mode.
- Rs 412 crore has been allocated for 5 lakh acres of land to be brought under organic farming over a three year period.
- A dedicated, long term irrigation fund of Rs. 20,000 crore to be created under NABARD.
- Rs 60,000 crore allocated for recharging of ground water as there is urgent need to focus on drought hit areas. This allocation will be used to facilitate cluster development for water conservation.
- A unified e-market platform for providing easy access to markets for farmers will be dedicated on 14th April, 2016 on the occasion of Dr. B R. Ambedkar's birth anniversary.
- Rs. 5,500 crores allocated in the budget for crop insurance under the Pradhan Mantri Fasal Bhima Yojana. Adequate and timely flow of credit to farmers is the main aim here for which a provision of Rs. 15,000 crore has been made towards interest subvention.
- Three specific initiatives being undertaken in order to ensure MSP benefits reach farmers are that states are being encouraged to take up decentralized procurement, online procurement through Food Corporation of India to be undertaken and effective arrangements for pulses procurement are being made.

2. Rural Sector

- Formation of SHGs encouraged for rural economy
- Rs 38,500 crore allocated for MGNREGA in 2016-17. The highest allocation on MGNREGA ever.
- Rs. 2.87 lakh crore allocated to Gram Panchayats and Municipalities as per recommendation of 14th Finance Commission, which puts allocation at approximately Rs. 80 lakh per Gram and Rs. 21 crore per Municipality; for

rural development. Use of funds to be determined in consultation with Ministry of Panchayati Raj.

- Rs. 655 crore have been allocated to the Rashtriya Gram Swaraj Abhiyan in order to focus on developing governance abilities of Panchayati Raj institutions to successfully implement development activities.
- Rs 19,000 crore allocated for Pradhan Mantri Gram Sadak Yojana; Rs 27,000 crore in total over 5 years.
- 300 Rurban clusters to be developed over the next 3 years under the Shyama Prasad Mukerjee Rurban Mission. Clusters are to incubate growth sectors in rural areas, provide market access for farmers and create employment opportunities for youth.
- 100% rural electrification before 1st May 2018
- National Digital Literacy Mission to be launched in more than 6 crore households in rural areas over the next 3 years. Digital Saksharta Abhiyaan (DISHA) will supplement the mission.
- Modernisation of land records is crucial, revamped land records will be collated and launched from 1st April, 2016.

3. Social Sector:

Health:

- Access to cooking gas is still limited for most poor households. An allocation of Rs. 2,000 crore LPG connection will be provided in the name of the women of poor households, with BPL households to be covered under this scheme. 1 crore 50 lakh households will be covered under this in 2016-17, and 5 crore households over the next 2 years for which this scheme is to be continued.
- The government is to launch a new health protection scheme with a cover of Rs. 1 lakh per family and an additional Rs. 30,000 for senior citizens in the family.
- 3000 generic drug stores to be opened up across the country under the Pradhan Mantri Jan Aushadhi Yojana. These stores are to help in bringing affordable drugs to the masses.
- 2.2 lakh renal patients added every year in India. National Dialysis Services Programme to be set up under National Health Mission with funds garnered through PPP mode to provide dialysis at all district hospitals. Certain parts of dialysis equipment are proposed to be exempt from customs duty, excise/CVD and SAD.

Entrepreneurship:

- Rs. 500 crore have been allocated to the Stand-Up India Scheme to promote entrepreneurship among SC/ST and women. The scheme is to facilitate 2 projects per bank branch for each category of entrepreneur.
- Multi-sectoral Development Programme and USTAAD to be implemented effectively as welfare and skill development schemes.

4. Education, skill development and job creation:

Education:

- 10 public and 10 private institutions to receive benefits under new scheme to be announced by the government in order to make them world class institutions for higher education.
- Increased allocation to Sarva Shiksha Abhiyaan. The focus is on quality of education now. 62 new navodaya vidyalayas to be set up to provide quality education.
- Higher Education Financing Agency (HEFA) to be set up as a not-for-profit organization with an initial corpus of Rs. 1,000 crore and it will work to raise funds for facilitating higher education initiatives and supplementing the same with CSR funds and philanthropic contributions.
- Creation of a digital repository for school leaving certificates, degrees and transcripts in order to provide security of documentation and availability of important documents digitally.
- Entrepreneurship education and training will be provided through 2200 colleges, 300 schools, 500 government ITIs and 50 Vocational Training Centres.

Skill Development:

- Rs. 1,700 crore allocated for the setting up of 1500 multi-skill training institutes.
- National Board for Skill Development Certification is to be set up in partnership with industry and academia.
- The aim to skill 1 crore youth in the next 3 years under the Pradhan Mantri Kaushal Vikas Yojana.
- National Skill Development Mission has imparted training to 76 lakh youth.

Employment and Job Creation:

- Government will pay 8.33 per cent for all new employees joining EPFO to incentivize employers to hire unemployed people. A provision for Rs. 1,000 crore has been made for this in the budget.
- Retail trade is the largest employer. Model Shops and Establishment Bill that will allow for small shops to stay open all 7 days. States are to adopt this on a voluntary basis.
- 100 model career centres to be operational by the end of 2016 from the National Career Service launched last year.
- State Employment Exchanges are to be another forum for job creation.

5. Infrastructure and Investment:

Infrastructure:

- Allocation of Rs. 55,000 crore made for roads and highways, which inclusive of PMGSY is a total of Rs. 97,000 crore. With the addition of the railway budget outlay, the total outlay for road and rail is Rs. 2,18,000 crore.
- More money has been allocated and a further Rs. 15,000 crore is to be raised through NHAI bonds for roads and highways.
- 10,000 km of highways are expected to be approved and 50,000 km of state highways to be taken up for upgradation as national highways.
- 65 eligible habitats to be connected via 2.23 lakh kms of road. Current construction pace is 100 kms/day.
- The total outlay for infrastructure is Rs. 2,21,246 crores.
- Passenger traffic is an unreformed sector and abolition of permit raj is the medium term goal. Road transport will be opened up to private players with necessary amendments to the Motor Vehicles Act, which will allow for the development of a better public transport system. States will have the choice of adopting the legal framework, for efficient public transport facilities.
- Modernisation of ports has also started. Plans to start new greenfield ports on the East and West coasts are underway. The Sagarmala project has been rolled out and work on the National Waterways is being sped up. Rs. 800 crore has been allocated for these projects.
- Civil aviation is to be improved. Over 116 airports and airstrips to be developed by the Centre in partnership with the States at the cost of Rs. 50 – 100 crore each, in order to revive regional connectivity.
- Imports of hydrocarbons occupy a large share of India’s imports. Incentivising gas production from deep sea and ultra-deep water and high-temperature, high-pressure areas is the main aim of the government.

- A comprehensive plan to augment investment in nuclear power is being drawn up with a budgetary allocation of Rs. 3,000 crore made for this purpose.
- Rs. 31,300 crore to be raised for infrastructure through bonds and mobilisation of finances by NHAI, PFC, REC, IREDA, NABARD and Inland Water Authority.
- A Public Utility Bill is to be introduced for resolution of disputes over infrastructure-related and PPP or public utility contracts. Guidelines for renegotiation of PPP contracts will also be introduced and a new credit rating system for infrastructure that gives focus to in-built credit enhancement features.

Investment:

- Fruit and vegetables grown by our farmers do not reach market. 100% FDI through FIPB route to be allowed in the marketing of food products manufactured in India and to give an impetus to the food processing industry.
- Reforms in FDI policy in insurance, pension stock exchange.
- CPSEs to divest individual assets like land and manufacturing units in order to release asset value for investment in new projects.
- Department of Disinvestment is to be renamed Department of Investment and Public Asset Management (DIPAM).

6. Financial Sector:

- A comprehensive code on resolution of financial firms to be introduced in parliament to deal with bankruptcy in banks and insurance companies, will provide comprehensive resolution framework.
- Allocation of Rs. 25,000 crore towards recapitalization of public sector banks. Roadmap for consolidation of public sector banks already being framed. Banking Board Bureau to be functional, bank consolidation to be spelled out and government holding to come below 50%.
- RBI to facilitate retail participation in government securities. The RBI Act is being amended to provide for MPC.
- New derivative products in commodity sector to be developed by SEBI.
- Comprehensive framework to deal with Collective Investment Scheme (CIS).
- The Budget empowered the Asset Reconstruction Companies (ARCs) by proposing to amend SARFAESI Act to allow sponsors to hold 100% equity stake in the ARCs. Non-institutional investors will be allowed to invest 100% in security receipts, increasing the investor’s base.

- The four wholly owned PSU General Insurance Companies to be listed in stock exchange and undertaking significant changes in FDI policy.
- Financial Data Management Centre under FSDC will be set up to provide integrated aggregated data and analysis across the financial sector.
- Deepening of the corporate bond market will be pursued.
- Comprehensive legislation is to be brought to deal with illicit deposit taking schemes.
- The target for the Pradhan Mantri Mudra Yojana has been increased to Rs. 1,80,000 crore in view of the Rs. 1 lakh crore being sanctioned for over 2.5 crore borrowers last year.
- Nation-wide roll out of ATMs and micro-ATMs in post offices.
- General Insurance companies owned by companies to be listed on stock exchange.

7. Governance and Ease of Doing Business:

- A task force has been constituted to rationalise the human resources in each of the ministries and autonomous institutions.
- Targeted delivery of financial services and subsidies to be introduced through the AADHAR framework and a social security framework is to be developed along the lines of AADHAR. AADHAR framework to receive statutory backing.
- DBT for fertilisers to be set up on a pilot basis.
- 3 lakh Fair Price shops will be provided automation facilities by March 2017.
- Registration of companies to be done in a day.

8. Fiscal Benefits:

- Conflicting opinions on FRBM roadmap were received but it was in the interest of prudence to adhering to fiscal targets. Fiscal deficits of RE 2015-16 and BE 2016-17 were retained at 3.9%and 3.5% of GDP.
- Total expenditure for this budget is Rs 19.78 lakh crores, with Rs. 5.50 lakh crores Plan expenses and Rs. 14 lakh crore Non-Plan expenses.
- Total resources to be transferred to States are Rs. 99,681 crore more than RE 2015-16.
- Since this is the last year of the 12th Plan, it is proposed for Plan and Non-Plan categories to be done away with from the next fiscal (2017-18).
- Revenue Deficit has been reduced from 2.8% to 2.5% of GDP.
- A committee is to be set up to review the FRBM Act and its implementation.

- Over 1500 Central Plan Schemes have been rationalised and restructured into 300 Central Sector and 30 Centrally Sponsored Schemes, in order to avoid overlapping expenditure.
- Necessary interim provisions have been made in the budget keeping in mind the implementation of the 7th Central Pay Commission, post the acceptance of the report.

9. Tax Reforms:

Relief to small tax payers:

- Limit of deduction in respect of rent paid under section 80GG is increased from Rs. 24,000 to Rs. 60,000 per annum to provide relief to those who rent houses.
- Turnover limit proposed to be increased from Rs. 1 crore to Rs. 2 crore for SMEs availing benefit of presumptive taxation scheme under section 44AD of Income Tax Act, which frees small businesses and non-corporates from the burden of maintaining account books and auditing processes.

Measures to boost growth and employment generation:

- Phasing out of exemptions and tax incentives as well as reductions to corporate tax will be carried out in a step by step manner from 2017 to 2020.
- Start-ups to receive tax benefit of 100% on profits for 3 out of their initial 5 years in order to help incentivize their growth.
- A special patent regime has been proposed with 10% rate of tax on income from worldwide exploitation of patents developed and registered in India.
- Custom and excise duty on refrigerated containers have been reduced to 5% and 6% respectively.

Incentivising domestic value addition to help Make in India:

- Changes are to be made to customs and excise duties for reducing costs and improving competitiveness of domestic industry in sectors like information technology hardware, defence production, textiles, chemicals, paper, paperboard and newsprint, maintenance, repair and overhauling of aircraft and ships.

Measures for moving towards a pensioned society:

- Withdrawal of up to 40% of corpus at time of retirement to be made tax exempt.
- Annuities services under NPS and EPFO are to be exempt from service tax.

Measures for promoting affordable housing:

- Deduction of additional interest up to Rs. 50,000 per annum for first-time home buyers, for loans sanctioned up to Rs. 35 lakhs in the next financial year, provided the value of the house does not exceed Rs. 50 lakhs.
- Construction of affordable houses up to 60 sq. mtrs under any scheme of Central or State governments including PPP schemes, is proposed to be exempt of service tax.

Additional resources mobilisation for agriculture, rural economy and clean environment:

- Surcharge on persons other than companies, firms and cooperative societies, with an income greater than Rs. 1 crore, to be raised from 12% to 15%.
- Krishi Kalyan Cess at 0.5% to be levied on all taxable services, proceeds of which will be used for financing agriculture and farmers' welfare initiatives.
- Infrastructure cess of 1% to be levied on small petrol, LPG and CNG cars, 2.5% on diesel cars of certain capacity and 4% on higher engine capacity vehicles as well as SUVs.
- Excise duty of 1% without input tax credit or 12.5% with input tax credit, to be levied on jewellery (excluding silver jewellery, other than studded with diamonds and other precious stones).
- Excise duty on branded readymade garments exceeding Rs. 1,000 retail price has been raised to 2% without input tax credit or 12.5% with input tax credit.
- 'Clean Energy Cess' levied on coal, lignite and peat renamed 'Clean Environment Cess'.
- Excise duties on tobacco products excluding beedis to be raised to 15%.

Reducing litigation and providing certainty in taxation:

- New dispute resolution scheme to settle tax cases is proposed. New categories of misdemeanours are to be introduced in order to reduce the discretion of tax officials in deciding on tax cases.
- Limited period Compliance Window to be opened from 1st June to 30th September 2016, for domestic taxpayers to declared undisclosed income and clear past tax transgressions by paying tax at a total of 45% of undisclosed income (tax at 30%, surcharge at 7.5% and penalty at 7.5%).
- 11 new benches are to be added to the Customs, Excise and Service Tax Appellate Tribunal (CESTAT) in order to help clear the backlog of cases.

Simplification and rationalization of taxation:

- 13 cesses levied by different Ministries in which revenue collection is less than Rs. 50 crore are to be abolished.

- Indian Customs Single Window Project is to be implemented at various ports and airports from the next financial year.
- A number of recommendations of the Justic Easwar Committee on Tax Administration Reforms have been accepted in this budget.

Direct tax proposals are to result in revenue loss of Rs. 1,060 crores and indirect tax proposals are expected to yield Rs. 20,670 crores giving a net impact of a revenue gain of Rs. 19,610 crores.

About Pahle India Foundation

Pahle India Foundation (PIF) is a not for profit, financial, economic and political research think tank, dedicated to the task of making India first by putting India first. Over the years, we have learnt that there is no universally accepted development model. Each country has to take into account its people, its resources and its socio economic and cultural legacy for effective policy formulation and implementation. At PIF, we work towards this objective of creating the necessary paradigm shift in development thinking and practices in India to achieve this aspirational goal. PIF currently has an analytically strong team of dedicated researchers who are self motivated. PIF's highly qualified team specialises in analyzing India's political economy and its engagement with the global flows in finance, trade and technology.

PAHLE INDIA FOUNDATION

PUTTING INDIA FIRST TO MAKE INDIA FIRST

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