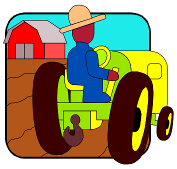
Key Features of Budget 2001-2002

Budget strategy

- Accelerated reforms in the agricultural sector - food economy and rural development programmes targeted.
- Intensification of infrastructure investment, continued reforms in the financial sector and capital markets, deepening of structural reforms - dismantling controls constraining economic activity.
- Human development through better educational opportunities and social security.
- Reduction in non-productive expenditure and rationalisation of subsidies.
- Acceleration of the privatisation process and restructuring of public enterprises
- Widening of the tax base and toning up the tax administration.



Agriculture and Rural Development

- Corpus of NABARD's RIDF VII increased from Rs. 4,500 crore to Rs. 5,000 crore next year and interest charged reduced from 11.5% to 10.5%.
- **Kisan Credit Cards** to all eligible agricultural farmers within the next 3 years. (110 lakh cards issued since 1998-99)
- KCC holders to get personal insurance package to cover them against accidental death or permanent disability on subsidised premia.
- NABARD to link 1 lakh additional Self-Help Groups during 2001-02, which would help in providing access to credit to additional 20-lakh families. Share-croppers and tenant farmers to also become eligible.
- Credit linked subsidy scheme for construction of cold storages for perishable commodities extended to rural godowns.
- NABARD to reduce rate of interest for funding the storage of crops, from 10 per cent to 8.5 per cent.
- New scheme for setting up Agriclinics and Agribusiness Centres by agricultural graduates.
- On-Farm Water Management for Increasing Crop Production in Eastern India (Rs. 70 crore).
- Technology Mission for Integrated Development of Horticulture in the North-Eastern States (Rs. 38 crore).

Rural Roads

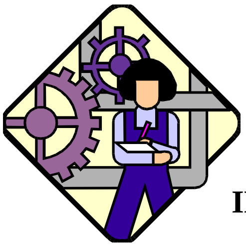
- **Pradhan Mantri Gram Sadak Yojana** (Rs. 2,500 crore) to provide connectivity of every village with a population of over 1,000 persons through good all weather roads by the year 2003 and those with a population of up to 500 persons by the year 2007.

Rural Electrification

- PMGY extended to cover rural electrification also.
- Total rural electrification in the next 6 years.
- Enhanced REC credit support to SEBs for speedy electrification of dalit bastis, scheduled tribe households and other weaker sections of society.
- Rs. 750 crore earmarked from RIDF for rural electrification.

Management of the Food Economy

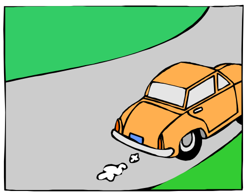
- Greater involvement of State Governments in procurement and distribution of foodgrains for PDS. Financial assistance to the State Governments to enable them to procure and distribute foodgrains to BPL families at subsidised rates.
- Essential Commodities Act, 1955 to be reviewed and restrictions on the free inter-State movement of foodgrains to be removed. The number of commodities declared as essential under the Act to be brought down.



INFRASTRUCTURE

Power

- The Central Government to accelerate the programme of reforms in SEBs anchored in the Centre-State partnership on the following:
- A time bound programme for installation of 100 per cent metering by December 2001.
- Energy audit at all levels.
- A specific programme for reduction and eventual elimination of power theft.
- Tariff determination by SERCs and compliance thereof.
- Commercialisation of distribution.
- SEB restructuring.
- Allocation to the Accelerated Power Development Programme (APDP) stepped up to Rs. 1,500 crore from a level of Rs. 1,000 crore in 2000-01.
- Electricity Bill 2001 to be introduced.
- The Plan outlay for central sector power utilities is being raised from Rs 9,194 crore in 2000-01 to B.E. of Rs. 10,030 crore for 2001-02.



Roads

- The total plan outlay for this sector is being enhanced by 93 per cent to Rs. 8,727 crore in 2001-02.
- Phase I of the National Highway Development Programme to be completed by December 2003.
- Rs. 962 crore assistance to States from the cess fund for state roads and Rs. 2,500 crore for the Pradhan Mantri Gram Sadak Yojana.

Telecom

- Competition being introduced in all service segments.
- Convergence Bill to cover telecommunications, information technology, and information and broadcasting sectors in an integrated manner to be introduced.

FINANCIAL SECTOR AND CAPITAL MARKETS

- Financial sector and capital markets reforms to continue.

Debt Market

- A Clearing Corporation for further orderly development of money market (including repo), Government Securities market and settlement of forex transactions will be set up.
- RBI to set up an electronic Negotiated Dealing System by June 2001 to facilitate transparent electronic bidding in auctions and dealings in Government securities on a real time basis.
- Reserve Bank of India to set up Electronic Fund Transfer (EFT) and Real Time Gross Settlement Systems (RTGS) within the next year.
- Removal of taxation anomalies to promote the issuance of STRIPS, zero coupon bonds, deep discount bonds, and the like.
- Public Debt Act to be replaced by Government Securities Act.

Banking Sector

- 7 more Debt Recovery Tribunals to be set up during 2001-02.
- Legislation to facilitate foreclosure and enforcement of securities in cases of default to be introduced.
- Banking Services Recruitment Boards to be abolished by July 31, 2001 or earlier. Banks to do all future recruitment themselves.

Capital Account Liberalisation

- Indian companies may now invest abroad up to US $50 million annually through the automatic route without being subject to the three year profitability condition.
- Companies which have issued ADRs/GDRs may henceforth make foreign investments up to 100 per cent of these proceeds; up from the current ceiling of 50 per cent.
- Indian companies that have issued ADRs/GDRs, may acquire shares of foreign companies up to an amount of US $100 million or an amount equivalent to ten times of their exports in a year, whichever is higher.
- Indian companies to be permitted to list in foreign stock exchanges by sponsoring ADR/GDR issues against block share holding. This facility would have to be offered to all categories of shareholders.

Foreign Investment

- The 40 per cent limit of investment in a company under the portfolio investment route by FIIs being increased to 49 per cent.
- Provided that foreign investors bring in a minimum of US $50 million, Foreign Direct Investment (FDI) in Non-Banking Financial Companies (NBFCs) would not have to be accompanied with a divestment a minimum of 25 per cent of their holding in the domestic market.

STRUCTURAL REFORMS

Administered Pricing Mechanism (APM)

Petroleum

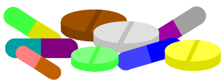
- The deadline of March 2002 for dismantling of the Administered Pricing Mechanism (APM) in the petroleum sector to be adhered to.

Fertilizer

- Phased programme of complete decontrol of urea by April 1, 2006 as recommended by the Expenditure Reforms Commission.
- The unit specific Retention Price Scheme (RPS) to be replaced by a Group Concession Scheme with effect from April 1, 2001.
- The rate of concession for urea units based on naphtha/FO/LSHS will be linked to international prices of these feed stocks with effect from April 1, 2001.

Sugar

- As a first step towards full decontrol of Sugar futures/forward trading in sugar to be introduced. The retail issue price of sugar under the PDS is being revised to Rs. 13.25 per kg. with effect from March 1, 2001.



Drug Price Control

- Span of price control to be reduced substantially but Government will retain the power to intervene comprehensively in cases where prices behave abnormally.

Industrial Restructuring

- SICA to be repealed. The Companies Act to be amended in order to set up a National Company Law Tribunal.

Labour Market

- Prior Government approval for effecting lay-off, retrenchment and closure required by industrial establishments employing not less than 100 workers to be revised to those employing not less than 1000 workers. The separation compensation will be increased from 15 days to 45 days for every completed year of service.
- Contract Labour Act to be amended to facilitate outsourcing of activities and contract appointments. It would provide protection to labour engaged in outsourced activities in terms of their health, safety, welfare, social security, etc.

Ashraya Bima Yojana

- New "**Ashraya Bima Yojana"** to provide compensation of up to 30% of last drawn annual pay for a period of one year to workers who lose their jobs. The four Government owned general insurance companies will administer this policy on a "**No Profit No Loss**" basis and will announce full details by June 2001.

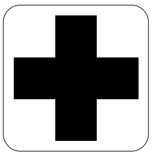
Small Scale Industries

- 14 items related to leather goods, shoes and toys being dereserved.
- The exemption limit has been doubled to Rs. 1 crore from September 1, 2000.
- Loans to the extent of Rs. 5,000 crore would be made available to the SSI sector over the next 5 years under the Credit linked capital subsidy scheme for technology upgradation.

Textiles

- The allocation for textiles enhanced by more than 50 per cent from Rs. 457 crore in 2000-01 to Rs. 650 crore in 2001-02.

- New scheme of setting up Integrated Apparel Parks (Rs.10 crore).
- The provision under TUFS is being raised to Rs. 200 crore.



HUMAN DEVELOPMENT

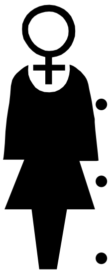
Health and Family Welfare

- Plan allocation for the Ministry of Health & Family Welfare has been stepped up from Rs. 4920 crore to Rs. 5780 crore. Rs.180 crore provided for HIV/Aids Control Programme.
- Indian Systems of Medicine and Homeopathy to get benefits similar to the pharmaceutical industry. Traditional Knowledge Digital Library being established to prevent the grant of patents. Scheme for strengthening the State Drug Testing Laboratories and pharmacies being introduced.

Education

All existing and ongoing schemes on elementary education to converge into an integrated National Education Programme – the Sarva Siksha Abhiyan after the Ninth Plan and to cover all districts in the country by March next year.

- Roorkee Engineering College to be upgraded to an IIT.
- The base of IITs to be expanded, regional engineering colleges to be strengthened and new institutes to be set up with public private partnership.
- A new Centrally Sponsored Scheme for computer literacy and studies in schools.
- 100 per cent deduction will be available for payments to engineering institutions also.
- New comprehensive commercial bank scheme for Educational Loans to cover all courses in schools and colleges in India and abroad. Loans to be made available up to Rs. 7.5 lakh for studies in India, and Rs. 15 lakh for studies abroad.



Women

- **Rashtriya Mahila Kosh** for providing micro credit to poor women through NGOs being strengthened.
- Integrated scheme for women's empowerment in 650 blocks through women's self help groups being launched.
- Scheme for women in difficult circumstances like widows of Vrindavan, Kashi and other places, destitute women and other disadvantaged women groups being launched.

Scheduled Castes and Scheduled Tribes

- Allocation for welfare schemes for upliftment of scheduled tribe in the Ministry of Tribal Affairs has been enhanced from Rs.786 crore in 2000-01 to Rs.986 crore in B.E. 2001-02.
- Allocation for welfare schemes for upliftment of scheduled castes in the Ministry of Social Justice & Empowerment has been enhanced from Rs. 709 crore in 2000-01 to Rs. 790 crore in B.E. 2001-02.

Social Security

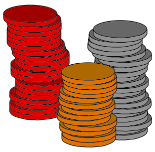
Two schemes to be managed by LIC being launched:

- Khetihar Mazdoor Bima Yojana, for landless agricultural labourers to provide benefits of insurance cover as available under Janashree Bima Yojana and a pension of Rs.100 per month, to the beneficiary on attaining the age of 60 years. The beneficiaries will be required to make a small contribution towards the premium.

- Shiksha Sahyog Yojana, to provide an education allowance of Rs. 100 per month to the children of parents living below the poverty line, to at least partly help meet the expenses of education during their studies from 9th to 12th standard. This will be available to the subscribers of the Janashree Bima Yojana.
- Ceiling for Government contribution of 1.16 per cent of monthly wage of employees to the Pension Fund being enhanced from Rs. 5,000 to Rs. 6,000 per month.
- Insurance Regulatory Development Authority to look into social security issues of the unorganised sector and provide a road map for pension reforms by October 1, 2001.

Journalists Welfare Fund

Journalists Welfare Fund being setup with a contribution of Rs.1 crore.



FISCAL CONSOLIDATION

Expenditure Management

- All requirements of recruitment will be scrutinized to ensure that fresh recruitment is limited to 1 per cent of total civilian staff strength.
- Postal rates will be revised moderately to contain the rising postal deficit.
- The Surplus Pool will be equipped to re-deploy and retrain surplus staff. Employees in the Surplus Pool will also be offered an attractive VRS package.
- Standard licence fee (rent) on government accommodation being enhanced with effect from April 1, 2001.
- Facility of LTC to Central Government employees suspended for 2 years.
- Recommendations of the Expenditure Reforms Commission to be implemented by July 31, 2001 and identified surplus staff transferred to the Surplus Pool.

Pension Reforms

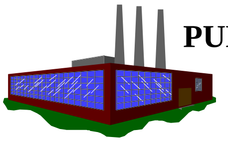
- A High Level Expert Group set up to review the existing pension system and to provide a roadmap for the next steps to be taken by the Government. Those who enter central government services after October 1, 2001 to receive pension through a new pension programme based on defined contributions.

Interest Rates

- Administered interest rates being reduced by 1 to 1.5 per cent points as of March 1, 2001. Government guarantees and tax incentives for these schemes to continue.
- The benefit of reduction in interest rates on Small Savings Deposits will be fully passed on to the States.
- Interest rate on loans portion of Central assistance to State Plans being reduced by 50 basis points.

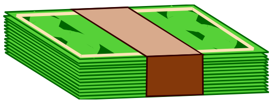
States Fiscal Reforms

- Rs.4243 crore provided towards the Incentive Fund to encourage States to implement monitorable fiscal reforms.
- Devolution of central taxes to States is expected to increase by nearly Rs. 9,000 crore in 2001-02 over the current year.



PUBLIC SECTOR RESTRUCTURING AND PRIVATIZATION

- Privatisation to be accelerated.
- An amount of Rs. 7,000 crore out of the expected receipt of Rs. 12000 crore from disinvestment will be used for providing restructuring assistance to PSUs, safety net to workers and reduction of debt burden.
- Subject to realization of the anticipated receipts of disinvestment a sum of Rs. 5,000 crore will be used to provide additional budgetary support for the Plan primarily in the social and infrastructure sectors.



Principles of Tax Proposals

- Need for growth in revenues, simplification and rationalization of the tax regime, and effective tax compliance through measures, which are friendly for the honest taxpayer, and a deterrent to the evader.

Indirect taxes

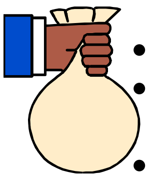
Excise

- Additional excise mop up estimated at Rs. 4,677 crore in a year. Total collection up from Rs. 71,252 crore to Rs. 81,720 crore.
- Few items that currently attract CENVAT of 8%. will henceforth be charged at the normal rate of 16% except cotton yarn including sewing thread, LPG, kerosene and diesel engines up to 10 HP, which are being left at 8%.
- Major rationalization in excise duty structure: about 80% of the revenue in respect of ad valorem duties will come from the single rate of 16% and about 17% from the combined rate of 32%.
- Food preparations based on fruits and vegetables being completely exempt from excise duty.
- Special surcharge on cigarettes/biris/pan masala for funding of the National Calamity Contingency Fund.
- Increase in Excise duty on High Speed Diesel and motor spirit not proposed to be passed on to the consumers except for any technical corrections.
- Specified Banking and Financial Services, Authorized Service Stations for servicing of vehicles including two wheelers, Port Services, Broadcasting Services, Photographic Services, Convention Services, Sound Recording Services, Scientific and Technical Consulting Services, Telex Services, Telegraph Services, Facsimile Services, On-line Information & Data Base Retrieval services, Video Tape Production Services, Services auxiliary to Insurance and service provided to lease circuit line holders being brought under tax net.

Customs Duties

- Total collection up from Rs. 53,572 crore to Rs. 54,822 crore.
- Budget proposals are estimated to result in a revenue loss of Rs 2,128 crore.
- Customs tariff would be brought progressively within three years and number of rates to be reduced to the minimum with a peak rate of 20%.
- The surcharge of 10% to lapse on 31.3.2001. Peak level of customs duty consequently declines from 38.5% to 35%.

- Increased duty on crude edible oils to a uniform rate of 75% and on refined oils to 85%.
- Customs duty on tea, coffee, copra, and coconut and desiccated coconut increased from the present 35% to 70%.
- Duty on import of second hand cars, old multi utility vehicles, scooters and motor cycles enhanced.
- Reduction in duty on IT and telecom.
- Customs duty on cinematographic cameras, projectors and certain other related equipment used by the film industry reduced from 25% to 15%.
- Accredited pressmen and cameramen now allowed to import cameras, computers, fax machine etc. up to a value of one *lakh* rupees for their professional use without payment of customs duty once in two years.
- Customs duty on gold reduced from Rs. 400 per 10 grams to Rs. 250 per 10 grams.
- CVD on the imported consumer products to be charged on the basis of maximum retail price.



Direct taxes

- Total collection up from Rs. 72,105 crore to Rs. 85,275 crore.
- Direct Taxes proposals to result in a revenue loss of Rs. 5,500 crore, which would be made up with tax buoyancy and increased voluntary compliance.
- Same rates as last year. Co-operative Societies, however, will henceforth pay 30% tax instead of 35%.
- All surcharges payable by corporates and non-corporates removed except surcharge of 2 % for financing National Calamity Contingency Fund. Assessees having an income of up to Rs. 60,000/- will not be subject to any surcharge.
- 100% deduction for donations to the National Trust for welfare of persons with autism, cerebral palsy, mental retardation and multiple disabilities.
- One-by-six scheme being extended to all urban areas in the country as defined by the 1991 Census. Changes arising out of the 2001 census will be incorporated subsequently.
- Even loss making companies to file their returns.
- Income tax deduction at source at the rate of 10% on income by way of commission or brokerage exceeding Rs. 2,500, except on transactions relating to shares and securities.
- Winnings from lotteries, crossword puzzles etc. will now be taxed at 30%. Income tax at the rate of 30% will be deducted at source from the winnings of television game shows and all similar game shows.
- Limit on income interest on time deposits for tax deduction at source being lowered from Rs. 10,000 to Rs. 2,500.
- Salaried persons in the lower income range having income up to Rupees one lakh will get an enhanced tax rebate at the rate of 30% in respect of their eligible investments under section 88 of the Income Tax Act, as against 20% at present.
- The profits of Export Oriented Units, and units located in Export Processing Zones, Free Trade Zones and Software Technology Parks on the permitted sales in India to be taxed.
- Profits derived by the units located in the software technology parks from the export of “on-site” services will be eligible for deduction like their other export income. Units located outside these zones will also get the benefit of tax exemption on such export earnings. Condition relating to transfer of ownership of companies in sections 10A and 10B of the Income-tax Act shall not apply in respect of companies in which public are substantially interested.
- Tax exemption available to NABARD, National Housing Bank and Small Industries Development Bank of India (SIDBI) withdrawn.
- Tax exemption in respect of interest paid on External Commercial Borrowings withdrawn

for such borrowings made on or after the first day of June 2001.

- The maximum limit of the deduction on certain interest income under section 80L being reduced to Rs. 9,000.
- The tax payable on the distribution of dividends of domestic companies and income in respect of Units of Mutual Funds and UTI being reduced to 10 %.
- Boost to primary capital market - Long-term capital gains arising from the sale of securities and Units if such gains are reinvested in primary issues of shares of public companies exempted.
- Ten-year tax holiday for the core sectors of infrastructure namely, roads, highways, waterways, water supply, irrigation, sanitation and solid waste management systems, which may be availed of during the initial twenty years. In the case of airports, ports, inland ports, industrial parks and generation and distribution of power, which also become commercially viable only in the long run, a tax holiday of ten years is being proposed to be availed of during the initial fifteen years.
- The five-year tax holiday and 30 % deduction for next five years available to the telecommunication sector till 31st March 2000 being retrospectively reintroduced for the units commencing their operations on or before 31st March 2003. These concessions will also be extended to Internet service providers and broadband networks.
- Tax incentives have also been provided for the investors providing long-term finance or investing in the equity capital of the enterprises engaged in infrastructure facility. Any income by way of interest, dividends or long-term capital gains from such investments is fully exempt. This concession extended to guarantee commission and credit enhancement fees earned by financial institutions from infrastructure enterprises. Co-operative Banks will also be eligible for exemption of their income from investments in approved infrastructure facilities.
- The weighted deduction of 150% of the expenditure on in-house research and development in certain areas being extended to biotechnology as well for clinical trials, filing patents and obtaining regulatory approvals. The amount paid to specified projects under the India Millennium Mission, 2020 will be eligible for 125 % weighted deduction.
- Tax holiday for five years and 30 % deduction of profits for the next five years to the enterprises engaged in the business of integrated handling, transportation and storage of food-grains provided.
- The development allowance available for tea increased from 20 % to 40 %. This additional allowance will be used only for re-plantation, rejuvenation, and modernization of tea plantations and processing facilities.
- The maximum amount of deduction available for interest payable on housing loans for self-occupied houses increased from rupees one lakh to rupees one and a half lakhs.
- Tax incentives allowed by way of deduction or rebate on payments of LIC premium extended to all insurance companies that have been approved by the Insurance Regulatory and Development Authority.
- Necessary legislative changes for transfer pricing being made.
- Foreign telecasting channels will henceforth be taxed in India.
- The time limits for issue of refunds, reassessment and reopening of assessments by the Income-tax Department reduced. Power to withhold the refund due to an assessee withdrawn. Similarly, there will be no requirement to obtain a Tax Clearance Certificate under section 230A from the Assessing Officer before transfer of immovable property. A fixed amount of penalty will be leviable for most of the defaults.

BUDGET ESTIMATES

- The target of 5.1% of fiscal deficit in 2000-01 has been achieved first time in many years.
- Total expenditure in the budget estimates for 2001-2002 is estimated at Rs. 3,75,223 crore, of which Rs. 100,100 crore is for plan and Rs. 275,123 crore for non-plan.
- The budget support for Central, State and UT Plans placed increased by Rs. 13,862 (16%) crore over revised estimates 2000-2001 to Rs. 100,100 crore.
- Gross budgetary support for the Central Plan being enhanced from Rs. 48,269 crore in the revised estimates 2000-2001 to Rs. 59,456 crore in 2001-2002.
- Central Plan assistance to States and Union Territories in 2001-2002 increased to Rs. 40,644 crore from Rs. 37,969 crore in the revised estimates 2000-2001.
- Non-plan expenditure in 2001-2002 is estimated to be Rs. 2,75,123 crore compared to Rs. 2,49,285 crore in Revised estimates for 2000-2001.