



Government of India

*“If we bring thought and passion to our governance, and walk the path of honour and courage, we can make the future happen. And this century will be India’s century.”*

BUDGET 2004-05

July 8, 2004.



## Key Features of Budget 2004-2005

### NATIONAL COMMON MINIMUM PROGRAMME

#### *Economic Objectives*



- Growth rate of 7 - 8 per cent per year for a sustained period;
- Universal access to quality basic education and health;
- Gainful employment in agriculture, manufacturing and services, and promoting investment;
- 100 days' employment to the breadwinner in each family at minimum wage;
- Focus on agriculture and infrastructure;
- Acceleration of fiscal consolidation and reform; and
- Higher and more efficient fiscal devolution.

### FRBM AND THE MACROECONOMIC BACKDROP

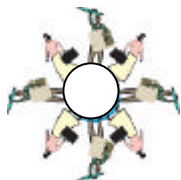
- Elimination of revenue deficit by 2008-09.
- Growth to be sustained by increased production and value addition in agriculture, a marked improvement in industrial production, and continued buoyancy in the performance of the services sector.
- 5-year road map to achieve the NCMP objective of bringing about rapid growth with stability and equity.

### POVERTY AND UNEMPLOYMENT

- Additional provision of Rs.10,000 crore for Gross Budgetary Support (GBS) for plan; programmes such as Food for Work, Sarva Shiksha Abhiyan, Midday Cooked-Meal Scheme, basic health care, railway modernisation and safety, Accelerated Irrigation Benefit Programme, drinking water, investment in agriculture, roads and science and technology to receive priority.
- ***Antyodaya Anna Yojana*** : coverage to increase from 1.5 crore to 2 crore families; provision of Rs.3500 crore included in the allocation for food subsidy.



- Public distribution system to be strengthened.
- **Food for Work Programme:** work begun on the National Employment Guarantee Act to guarantee 100 days of employment in a year to one able-bodied person in every poor household; a new Food for Work programme in 150 districts classified as most backward to be launched;
- Allocation of Rs.1180 crore for programmes concerning the Scheduled Castes and Rs.1146 crore for Scheduled Tribes;
- Additional allocation of Rs.50 crore for the National Minorities Development and Finance Corporation.
- Indicative target of credit linking 5.85 lakh self-help groups (SHGs) during the period up to March 31, 2007.



## THRUST AREAS



- Doubling agricultural credit in three years, accelerating the completion of irrigation projects and investing in rural infrastructure;
- Providing farm insurance and livestock insurance;
- Improving agricultural product markets, and promoting agri-businesses;
- Drinking water for all;
- Expanding water harvesting, watershed development and minor-irrigation and micro-irrigation schemes;
- Enhancing investment in industry – public and private, domestic and foreign – to create new jobs;
- Creating space for small-scale industry to thrive and grow;
- Electricity for all;
- Universal access to telecommunication facilities;
- More housing for the poor;
- Access to medical care through health insurance; and
- Encouraging savings, and protecting the savings of the senior citizens.

## EDUCATION AND HEALTH



- A cess of 2 per cent on Union taxes & duties will yield about Rs.4000 - 5000 crore in a full year; to be earmarked for education including cooked midday meal.

- Programme to be launched to upgrade 500 ITIs over the next 5 years.

Collateral waived for educational loans up to Rs.7.5 lakh, if a satisfactory guarantee is provided on behalf of the student.

- Universal Health Insurance Scheme to be redesigned and made exclusive for persons and families below the poverty line; revised premium of Rs.165 for individuals, Rs.248 for a family of five and Rs.330 for a family of seven without any reduction in benefits; premium subsidy to be Rs.40 crore in a year; number of insured to rise to about 10 lakh.



- A new Group Health Insurance Scheme to be introduced through public sector non-life insurance companies for members of Self-Help Groups (SHGs) and other credit linked groups (CLGs); premium will be Rs.120 per person and the insurance cover would be for a sum of Rs.10,000.
- Allocation of Rs.259 crore for prevention and control of HIV/AIDS.

## AGRICULTURE AND THE RURAL ECONOMY



- **Credit:** Regional Rural Banks (RRBs) that adopt a new governance standard and that abide by the prudential regulations will qualify for receiving funds from the Government for restructuring; Task Force to be appointed on reforms in the cooperative banking system; report by October 31, 2004.

- **Irrigation, Rural Infrastructure:** last mile projects under the Accelerated Irrigation Benefit Programme (AIBP) to be given priority; provision of Rs.2800 crore in 2004-05; corpus of Rs.8000 crore to be provided during 2004-05 for the Rural Infrastructure Development Fund (RIDF) with revised guidelines.



- **Restoring Water Bodies:** scheme to repair, renovate and restore all the water bodies that are directly linked to agriculture to be launched; pilot projects to begin in five districts; National Water Resources Development Project to be launched.
- **Water Harvesting:** nationwide water harvesting scheme to be launched; to cover one lakh irrigation units at an average cost of Rs.20,000 per unit; loan on easy terms by NABARD with no margin money; 50 per cent capital subsidy through NABARD.

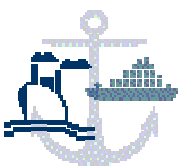


- **Flood Control:** Rs.30 crore allotted in the current year.
- **Diversification:** National Horticulture Mission to be launched to double horticulture production by 2011-12; States to be encouraged to emulate the Anand model and establish a State Level Cooperative Society for promoting horticulture; Government to facilitate farmers to diversify into oilseeds by promoting superior seed-technology and through an appropriate policy of price support; India must become a single market for all products, particularly agricultural produce - States urged to enact the model law.
- **Research and Development:** Allocation of Rs.1000 crore in 2004-05 against Rs.775 crore in BE 2003-04.
- **Agri-Business:** Action initiated to improve the governance of the Small Farmers Agri-business Consortium (SFAC) including the appointment of a banker as the chief executive; necessary additional capital to be provided to SFAC.
- **Risk Mitigation:** National Agricultural Insurance Scheme (NAIS) which insures the yield being redesigned; Pilot scheme insuring farm income launched during Rabi 2003-04 in 19 districts extended to Kharif 2004; weather insurance scheme being introduced by the Agricultural Insurance Company (AIC) on a trial basis in 20 rain gauge stations.



## INFRASTRUCTURE

- Inter-Institutional Group (IIG) formed by IDBI, IDFC, ICICI Bank, SBI, LIC, Bank of Baroda and Punjab National Bank to ensure speedy conclusion of loan agreements and implementation of infrastructure projects.
- All drinking water schemes to be brought under the umbrella of the Rajiv Gandhi Drinking Water Mission; allocation of Rs.2610 crore for Accelerated Rural Water Supply Programme (ARWSP) in the current year; funds to be devolved on panchayati raj institutions for implementation; provision of Rs.151.25 crore for Urban Water Supply Programme in the current year; first large desalination plant to be installed near Chennai and more such plants to be installed along the Coromandel coast through public-private partnership.
- **Sethusamudram Ship Canal Project:** Environmental Impact Assessment study completed; techno-economic feasibility report expected shortly; SPV to be established to raise funds; Government participation through a mix of equity support and debt-guarantee.
- Construction of an International Container Transshipment Terminal (ICTT) at Vallarpadam in Kochi port on BOT basis.





- **Rural Housing:** allocation for Indira Awas Yojana (IAY) raised by Rs.537 crore to Rs.2247 crore; National Housing Bank has offered to reduce the rate of refinance by 25 basis points under the Golden Jubilee Rural Housing Finance Scheme; RBI has agreed to revise the norms of re-payment for rural housing loans by banks, so that the instalments coincide with crop cycles; Target of 250,000 rural housing units per year.



## INDUSTRY

- An Investment Commission to be established.
- A National Manufacturing Competitiveness Council to be set up.
- Sectoral cap for FDI to be raised from 49 per cent to 74 per cent in telecommunications; from 40 per cent to 49 per cent in civil aviation; and from 26 per cent to 49 per cent in insurance.



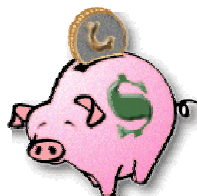
- **Capital Markets:** Procedures for registration and operations to be made simpler and quicker for FIIs; investment ceiling for FIIs in debt funds to be raised from US\$ 1 billion to US\$ 1.75 billion; banks with strong risk management systems to be allowed greater latitude in their exposure to the capital market; an alternative trading platform to be created for small and medium enterprises (SMEs) to raise equity and debt from the capital market; steps to be initiated to integrate the commodities markets and the securities markets.



- **Public Sector:** equity support of Rs.14,194 crore and loans of Rs.2,132 crore to Central PSEs (including Railways) in 2004-05; Board for Reconstruction of Public Sector Enterprises (BRPSE) to be established; financial support for restructuring Hindustan Antibiotics Limited; Rs.508 crore for Indian Telephone Industries (ITI).
- **Small Scale Industry:** 85 items to be taken out of the reserved list; ceiling for loans under the Capital Subsidy Scheme to be raised from Rs.40 lakh to Rs.1 crore; rate of subsidy to be raised from 12 per cent to 15 per cent; more sub-sectors and technologies to be made eligible for assistance; subsidy to be met from provision of Rs. 135.24 crore for "Promotion of SSI Schemes".
- **Regeneration of Traditional Industries:** Fund for the Regeneration of Traditional Industries to be set up with an initial allocation of Rs.100 crore.

## OTHER PROPOSALS

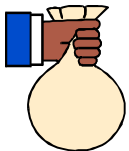
- **VAT:** a broad consensus among the States to implement VAT with effect from April 1, 2005; formula to be evolved for determining the compensation for the loss of revenue, if any.
- **Pension Reform:** legislation to provide a regulatory framework for the 'defined contribution' pension scheme for the Central Government employees recruited on or after January 1, 2004 to be introduced in Parliament.
- **Export Promotion:** Bill for regulating Special Economic Zones to be introduced.
- **Securitisation Act:** relevant provisions of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act to be amended to address the Supreme Court's concerns regarding a fair deal to borrowers while ensuring that the recovery process is not delayed or hampered.
- **Interest Rates:** no change in the existing rates of interest on small savings instruments including PPF, GPF and Special Deposit Scheme; new scheme called the Senior Citizens Savings Scheme offering an interest rate of 9 per cent per annum to be introduced.
- **Reform of Public Distribution System:** pilot scheme for distributing food stamps, instead of distributing food through fair price shops to be introduced in two or three contiguous districts.
- **Gender Budgeting:** Report of the Expert group on "Classification System of Government Transactions" to be examined and if possible, to be implemented from Budget for 2005-06.
- **Subsidies:** blue print to target the subsidies at the poor and truly needy to be prepared.
- **States' Finances:** States' share of Union taxes and duties to increase to Rs.82,227 crore from Rs.63,758 crore in BE 2003-04; rate of interest on Central Government loans reduced from 10.5 per cent to 9 per cent with effect from April 1, 2004; States to be allowed to raise fresh loans and repay their old high-cost loans to NABARD and some other agencies; States to be consulted on allowing them to increase their open market borrowings and reducing their dependence on loans from the Central Government; passing on of external loans on a back-to-back basis to be considered.







- **Special Economic Packages:** Bihar will be assisted through the Rashtriya Sam Vikas Yojana; a provision of Rs.3225 crore made for the present.
- **North Eastern Region (NER):** all Ministries and Departments to spend at least 10 per cent of their Plan budget for schemes and programmes in the NER (Rs.5823 crore); amount remaining unspent is transferred to the non-lapsable pool for development of the NER; Rs.650 crore provided from the Central pool of resources for specific projects and schemes in the region, up from Rs.550 crore in 2003-04.
- **Jammu & Kashmir:** special assistance to be provided for a reasonable Plan size; financial support to be provided for the Baglihar project; Rs.300 crore will also be provided to ensure smooth switch-over from the current overdraft arrangement with the Bank of Jammu & Kashmir to the Ways & Means scheme of the RBI.
- **Backward States' Commission:** Backward States Grant Fund to be set up with a corpus of Rs.25,000 crore to be provided over a period of five years; will become operational from 2005-06.
- **Defence Modernization:** increase in allocation to Rs.77,000 crore (as against Rs.65,300 crore in BE 2003-04) including Rs.33,483 crore for capital expenditure.



## TAX REFORMS

### *Direct taxes*

- No one with a taxable income of Rs.100,000 will be required to pay income tax.
- Family pension received by widows, children and nominated heirs of members of the armed forces and the paramilitary forces killed in the course of operational duties to be exempt from income tax.
- Benefit of Section 80DD and Section 80U to be extended in respect of persons suffering from autism, cerebral palsy and multiple disability.
- Compensation for acquisition of agricultural land in certain urban agglomerations to be exempt from capital gains tax in cases where the compensation or the enhanced compensation has been received on or after April 1, 2004.

- EET to be adopted for the 'defined contribution' pension scheme for new entrants into Central Government service.
- Tax exemptions on interest earned from a Non-Resident (External) Account and interest paid by banks to a Non-Resident or to a Not-Ordinarily Resident on deposits in foreign currency, and on payment made by an Indian company to acquire an aircraft or an aircraft engine on lease from a foreign state or a foreign enterprise, to cease from September 1, 2004.
- Gifts from unrelated persons, above the threshold limit of Rs.25,000 to be taxed as income; gifts received from blood relations, lineal ascendants and lineal descendants and gifts received on certain occasions like marriage will continue to be totally exempt.
- Deduction of 100 per cent of profits for 5 years and 25 per cent of profits for the next 5 years to be allowed in the case of new agro-processing industries set up to process, preserve and package fruits and vegetables.
- Additional depreciation of 15 per cent allowed on new plant and machinery acquired or installed in an existing undertaking to continue with the required increase in installed capacity at 10 per cent instead of 25 per cent.
- Automobile industry to be notified as an industry entitled to 150 per cent deduction of expenditure on in-house R&D facilities.
- Benefit under Section 80 IA to be extended to power sector projects undertaken during the period April 1, 2004 to March 31, 2006.
- Request of shipping industry for the levy of a tonnage tax to be accepted.
- Benefit of Section 80 IB to be extended to new hospitals with 100 beds or more set up in rural areas; Such hospitals to be entitled to a 100 per cent deduction of their profits for a period of five years.
- Benefits to the housing industry under Section 80 IB for projects approved before March 31, 2005 - time limit to be extended to March 31, 2007.
- Tax on long-term capital gains from securities transactions to be abolished; Instead, a tax on transactions in securities on stock exchanges to be levied on the buyer at the rate of 0.15 per cent of the

value of security; rate of tax on short-term capital gains from securities to be reduced to a flat rate of 10 per cent.

- Equity-oriented mutual funds to continue to be exempt from tax on dividends; rate of tax on corporate unit holders of debt-oriented mutual funds to be raised to 20 per cent with no change for individuals and HUF unit holders.
- Benefits to the telecom sector under Section 80 IA for services commenced before March 31, 2004 - terminal date to be extended to March 31, 2005.
- 100 per cent deduction of profits for 10 years to companies carrying on scientific research and development and approved by the Department of Scientific and Industrial Research before April 1, 2004 - terminal date to be extended to March 31, 2005.
- 100 per cent tax exemption to new industrial undertakings in Jammu & Kashmir if they commenced production before March 31, 2004 - date to be extended to March 31, 2005.

### ***Indirect Taxes***

- Intention to align the tariff structure to those of ASEAN countries.
- Eventually there should be a uniform rate of tax on goods and services.
- Removal of exemption from CVD enjoyed by some imported goods where there is no corresponding exemption from excise duty on Indian made goods.
- Customs duty on non-alloy steel to be reduced from 15 per cent to 10 per cent and the excise duty on steel to be increased from 8 per cent to 12 per cent so that the countervailing duty will also be applicable to imports.
- Peak rate on Alloy steel, copper, lead, zinc and base metals to be reduced to 15 per cent; customs duties on refractory raw minerals and mineral products like graphite, asbestos, mica and gypsum to be reduced to 15 per cent; customs duty on all catalysts also to be 15 per cent.
- While retaining customs duty on crude palm oil at 65 per cent, the duty on refined palm oil to increase to 75 per cent.
- Customs duty of 5 per cent on some items of plantation machinery to be extended to more items pertaining to the tea and coffee plantation sector.



- Tractors, dairy machinery and hand tools such as spades, shovels, sickles, etc. which attract a 16 per cent excise duty to be fully exempt.
- Excise duty to be reduced from 16 per cent to 8 per cent on preparations of meat, poultry and fish and from 32 per cent to 16 per cent on food grade hexane (used in the edible oil industry).
- Certain rehabilitation aids to be fully exempt from customs duty, excise duty and CVD; Crutches, wheel chairs, walking frames, artificial limbs, etc. for the disabled to be fully exempt from customs duty; restrictions on institutions for the visually-impaired and the hearing-impaired availing of import duty exemptions to be removed and the list of exempted appliances to be enlarged; all ambulances registered as such to be allowed the concessional excise duty of 16 per cent; excise duty exemption to be extended to diagnostic kits for detection of all types of hepatitis.
- Excise duty to be levied on contact lenses and playing cards; excise duty to be increased from 8 per cent to 16 per cent on a few items; in all these cases the general SSI exemption will continue to be available.
- Excise duty on matches made in the mechanized/semi-mechanised sector to be increased from 8 per cent without Cenvat credit to 16 per cent with Cenvat credit.
- Specified raw materials for manufacture of parts of cathode ray tubes and specified capital goods for manufacture of mobile handsets, plasma display panels, etc. to be exempt from excise duty; specified items for manufacture of telecom grade optical fibres and cables to be exempt from customs duty; customs duty exemption to be extended to imports by universal access service providers.
- Full excise duty exemption to be granted on computers; some excise relief to be given to LPG gas stoves bearing an MRP up to Rs.2000, footwear with MRP upto Rs.250 and writing instruments with MRP upto Rs.200.
- Concessional customs duty of 5 per cent on capital goods to be extended to the non-leather footwear industry; patent leather to be exempt from customs duty.

- Import duty on platinum to be reduced from Rs.550 per 10 grams to Rs.200; rough coloured precious gemstones to be exempt from customs duty.
- Area specific exemptions enjoyed by States other than the North Eastern States and J & K to continue and be available to units set up or expanded on or before March 31, 2007.
- New tax regime for textiles: mandatory Cenvat chain to be abolished; no mandatory excise duty on pure cotton, wool and silk, whether it is fibre, yarn, fabric or garment; blended textiles and pure non-cotton (polyester, viscose, acrylic and nylon) to have a different tax regime; mandatory excise duty on man-made staple fibre at 16 per cent; on polyester filament yarn (including textured yarn) at 24 per cent; and on other man-made filament yarn (including textured yarn) at 16 per cent.
- **Service Tax:** credit of service tax and excise duty to be extended across goods & services; rate of service tax to be enhanced from 8 per cent to 10 per cent; addition of some more services; mandatory verification of self assessment and the mandatory penalty for non-registration to be done away with.
- An education cess of 2 per cent on income tax, corporation tax, excise duties, customs duties and service tax to be levied.
- Tax proposals on direct taxes expected to yield a gain of Rs.2000 crore. On the indirect taxes side, they are broadly revenue neutral.



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## NOTE