The framework and process of Indian Union Budget with reference to 2015- 2016

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Summary
The budget documents are fascinating. When we dissect them, we understand the purpose of the government, its policies, priorities, allocation of resources and funds among different regions, sectors and industries. These are expected to bring conclusive change and progress in the growth of the economy and its people. The budget process was first introduced on 7th April, 1860, two years after the transfer of Indian administration from East-India Company to British Crown. The first Finance Member, who presented the Budget, was Mr. James Wilson. After independence, India's first Finance Minister Shri R. K. Shanmukham Chetty, presented the first Budget on 26th November, 1947. Since then, this has evolved over the past six decades to reflect the firmness of our democratic processes in framing our economy. It has come to light as a crucial tool for public finance management. In this paper, we have tried to explain the layout and activities connected with the preparation of the Annual Budget with a brief note on latest union budget of 2015-2016.

Keywords: Union budget, the planning commission, budget process, budget 2015-2016

Union Budget
The budget preparation in India is an iterative process between the Ministry of Finance/Planning Commission and the spending Ministries and a roadmap for efficient utilization of public resources. The Union Budget of India, also referred as the General Budget, is presented each year on the last working day of February by the Finance Minister of India to the Parliament (Article 112 of the Constitution of India). The Indian Constitution does not mention the term 'Budget'. It is known as the 'Annual Financial Statement', which is presented before both the Houses of Parliament, the House of People (Lok Sabha) and the Council of States (Rajya Sabha). The financial year for the Union and the State Governments in India is from April to March. Each financial year is, therefore, spread over two calendar years. It is currently presented through 14 documents, some of which are mandated by the Constitution while others are explanatory documents. It is a combination of top down approach with the Ministry of Finance and the Planning Commission issuing guidelines or communicating instructions to spending Ministries, and a bottom-up approach, wherein the spending Ministries present requests for budget allocation.

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The two basic fundamentals of any budget are the revenues and expenses. It works on what is to be achieved, how, for whom and the resources required for the same. Budget is prepared on cash basis. Whatever is expected to be actually received or paid under proper sanction during a financial year is budgeted in that year. All appropriations granted by the Parliament expire at the end of financial year and no deduction of unspent budget can be appropriated for meeting the demands in the next financial year. Thus, all unutilized funds within the year 'lapse' at the end of the financial year. Each department prepares estimates for receipts and expenditure separately. Generally one demand or grant is allocated in respect of each Ministry/Department. In case of certain large Departments/Ministries more than one demands for grants is allocated in terms of General Financial Rules.

The ministries are required to provide three different kinds of figures relating to their expenditures and receipts during this process of budget preparation. These are: budget estimates, revised estimates and actual. Let's understand this in the context of Union budget 2013-14, which was presented, as usual, on 28th of February 2013 by the Finance Minister, Shri P Chidambaram on the floor of Lok- Sabha. However, the process of its formulation would have got started in August 2012 through issuance of budget circular of the Budget Division and this process would have continued till February 2013. The approval of Parliament is sought for the estimated receipts/expenditures for 2013-14, which would be called budget estimates. At the same time, the Union government, in its budget for 2013-14, would also present revised estimates for the ongoing financial year 2012-13. The government would not seek approval from Parliament of revised estimates of 2012-13; but, these revised estimates allow the government to reallocate its funds among various ministries based on the implementation of the budget for 2012-13 during the first six months of financial year 2012-13. Finally, ministries also report their actual receipts and expenditures for the previous financial year 2011-12. Hence, the Union budget for 2013-14 consists of budget estimates for 2013-14, revised estimates for 2012-13, and actual expenditures and receipts of 2011-12.

Thus, the Annual Financial Statement shows the receipts and expenditure of Government in three separate parts under which Government accounts are maintained viz. (i) Consolidated Fund of India (ii) Contingency Fund of India and the (iii) Public Account. As per Constitutional provisions (Article 112) the Annual Financial Statement has to distinguish expenditure on revenue account from other expenditure. It, therefore, comprises of (i) Revenue budget and (ii) Capital Budget. Broad break-up of expenditure on Plan and Non Plan i.e. expenditure which is part of normal activities of the Government or maintenance expenditure, sectoral allocation of plan outlays, details of resources transferred to States and Union Territory Governments are also reflected in the budget documents. The Union Budget is presented to Parliament in two parts i.e. Railway Budget pertaining to Railway Finance and General Budget which gives an overall picture of financial position of the Government of India including the effect of Railway Budget.

Important Documents Related to Budget

The major work undertaken in the Budget Division relates to the 'Scrutiny of Receipt and Expenditure Estimates' in the process of preparation of Budget Estimates, Revised Estimates and the related Statements, Annexes of various budget documents. The detailed estimates of receipts and expenditure are prepared by the Ministries/ Departments in the prescribed forms and furnished to the concerned Sections in the Budget Division. The Budget documents presented to Parliament comprise, besides the Finance Minister's Budget Speech, the following:

a) Annual Financial Statement (AFS)
b) Demands for Grants (DG)
c) Appropriation Bill
d) Finance Bill
e) Memorandum Explaining the Provisions in the Finance Bill, 2015
f) Macro-economic framework for the relevant financial year
g) Fiscal Policy Strategy Statement for the financial year
h) Medium Term Fiscal Policy Statement
i) Medium Term Expenditure Framework Statement
j) Expenditure Budget Volume-1
k) Expenditure Budget Volume-2
l) Receipts Budget
m) Statement of Revenue Impact of Tax Incentives under the Central Tax System.
n) Budget at a glance
o) Highlights of Budget

The documents shown at Serial a, b, c and d are mandated by Article 112,113, 114(3) and 110(a) of the Constitution of India respectively, while the documents at Serial f, g, h and i are presented as per the provisions of the Fiscal Responsibility and Budget Management Act, 2003. Other documents are in the nature of explanatory statements supporting the mandated documents with narrative or other content in a user friendly format suited for quick or contextual references. Hindi version of all these documents is also presented to Parliament. A web version is hosted at *http://indiabudget.nic.in*, with hyperlinks, intended to make surfing more efficient.

In addition to the above, individual Departments/Ministries also prepare and present to Parliament their detailed Demands for Grants, Outcome Budget and their Annual Reports. The Economic Survey which highlights the economic trends in the country and facilitates a better appreciation of the mobilization of resources and their allocation in the Budget is brought out by the Economic Division of Department of Economic Affairs, Ministry of Finance. The Economic Survey is presented to Parliament in advance of the Union Budget. The web versions of these documents are normally posted by the respective Ministries/Departments on their web sites.

Budget preparation
The budget cycle typically starts towards the end of September of the current year and lasts till May of the next financial year. On the presumption that budget shall be presented at 11:00 hours on the 28th/29th of February of a year (last working day of February), the budget division prepares a comprehensive schedule for carrying out the budget preparation activities. In the year in which general elections to the Lok Sabha are held, the interim budget is presented to Parliament on any given day convenient to Government. After the general elections are over and assumption of office by the new Government, the regular budget is presented to Parliament on any date convenient to Government or as decided by the new Government. The schedule clearly indicates the division/Organization/ Ministry/Department responsible for various tasks/activities along with the timeframe therein.

Budget for a year is prepared by the Budget Division in the Ministry of Finance broadly on the basis of detailed estimates of expenditure and receipts received from various Departments/Ministries of Government of India and its own subordinate estimating authorities. The general financial rules also prescribe the broad guidelines, procedures and forms for the preparation of budget estimates of receipts and expenditure by the Ministries. The estimates of expenditure are prepared separately for Capital and Revenue as a constitutional requirement and Plan and Non Plan in keeping with the existing classification system. The estimates of Plan expenditure are made on the basis of the approved plan allocations intimated by the Planning Commission.

Budget circular: This circular is issued in the month of September. Consists of instructions on the preparation of estimates of various types of receipts and expenditure, its formats and statements in which the estimates are required to be furnished.

The revenue and capital budget: the budget must distinguish expenditure on the revenue account from other expenditures. Therefore, the budget comprises of the (a) Revenue budget and the (b) Capital budget. The Revenue Budget shows the current receipts of the government and the expenditure that can be met from these receipts. Revenue receipts are divided into tax and non-tax revenues.

Tax revenues consist of the proceeds of taxes and other duties levied by the central government. Tax revenues, an important component of revenue receipts, comprise of direct taxes – which fall directly on individuals (personal income tax) and firms (corporation tax), and indirect taxes like excise taxes (duties levied on goods produced within the country), customs duties (taxes imposed on goods imported into and exported out of India) and service tax. Non-tax revenue of the central government mainly consists of interest receipts (on account of loans by the central government which constitutes the single largest item of non-tax revenue), dividends and profits on investments made by the government, fees and other receipts for services rendered by the government. Cash grants-in-aid from foreign countries and international organizations are also included.

The estimates of revenue receipts take into account the effects of tax proposals made in the Finance Bill.

Revenue expenditure consists of all those expenditures of the government which do not result in creation of physical or financial assets. It relates to those expenses incurred for the normal functioning of the government departments and various services, interest payments on debt incurred by the government, and grants given to state governments and other parties.

Total revenue expenditure is again classified into plan and non-plan expenditure. Plan revenue expenditure relates to central Plans (the five year plans, now NITI) and central assistance for State and Union Territory Plans. Non-plan expenditure, the more important component of revenue expenditure, covers a vast range of general, economic and social services of the government. The main items of non-plan expenditure are interest payments, defense services, subsidies, salaries and pensions. Interest payments on market loans, external loans and from various reserve funds constitute the single largest component of non-plan revenue expenditure. The Capital Budget is an account of the assets as well as liabilities of the central government, which takes into consideration changes in capital. It consists of capital receipts and capital expenditure of the government. This shows the capital requirements of the government and the pattern of their financing. The main items of capital receipts are loans raised by the government from the public which are called market borrowings, borrowing by the government from the Reserve Bank and commercial banks and other financial institutions through the sale of treasury bills, loans received from foreign governments and international organizations, and recoveries of loans granted by the Central Government. Other items include small savings (Post-Office Savings Accounts, National Savings Certificates, etc), provident funds and net receipts obtained from the sale of shares in Public Sector Undertakings (PSUs).

Capital Expenditure includes expenditure on the acquisition of land, building, machinery, and equipment, investment in shares, and loans and advances by the central government to state and union territory governments, PSUs and other parties. Capital expenditure is also categorized as plan and non-plan in the budget documents. Plan capital expenditure, like its revenue counterpart, relates to central plan and central assistance for state and union territory plans. Non-plan capital expenditure covers various general, social and economic services provided by the government.

Sanction of estimates: The estimating authorities forward the budget proposals to their departmental heads for consideration and onward transmission to the ministries administratively concerned. These ministries scrutinize the estimates, make modifications where necessary, and transmit these revised estimates to the Financial Adviser for further examination and processing. The Financial Adviser ensures the correctness of accounts classification, makes modifications as may be called for in his

judgment in the context of economy and other considerations, consolidates the estimates for each programme/organization to present a complete picture of their financial costs, and obtains approval of the Secretary (Expenditure) in the Ministry of Finance, wherever necessary. Departmental budgets are then forwarded to the Budget Division.

Pre-budget meetings: Preparation of revised estimates of receipts and expenditure for the current year necessarily precedes the estimation for the Budget for the subsequent year although preparation of the budget estimate for the ensuing year is also completed before the end of current financial year. The revised estimates for the current year are however prepared before the budget estimates of the ensuing year as the supplementary demands are based on the revised estimates of expenditure for the current year, which have to be obtained before the end of the current financial year. The figures of the revised estimates are finalized in the pre-budget meetings with Secretary (Expenditure) along with the Non Plan Budget Estimates, for the ensuing year. On the basis of the revised estimates of expenditure, Supplementary Demands for Grants are prepared by the Government of India under Article 115 of the Constitution.

Union Budget 2015-16: A snapshot

The statements made by the government in the budget 2015-16 provide for a concerted endeavor to move towards the socio-economic targets. This budget has laid down the roadmap for taking India to double digit growth. Government has also made attempt to move towards a more simplified tax structure by announcing a plan to justify direct tax regime for corporate. This budget aims series of incrementally affirmative steps, with the focus firmly on reviving investments in infrastructure, improving the inertia of doing business and exaggerating funds in the hands of the middle class.

Part A: Macro Overview

Major Confrontations in the near future: The union budget is primarily focusing on the agriculture sector and trying to broaden investment in infrastructure. The Make in India programme will generate new jobs for the prospective citizens in the country. The key challenging area is the fiscal discipline. They have devolved a 42% share of the divisible pool of taxes to States. The devolution to the States would be of the order of ₹5.24 lakh crore in 2015-16 as against the devolution of ₹3.38 lakh crore as per revised estimates of 2014-15. Another ₹3.04 lakh crore would be transferred by way of grants and plan transfers. Tax buoyancy was also significantly lower. Despite this the government will meet the challenging fiscal deficit target of 4.1% of GDP. Lastly national priority will be given to basic areas such as agriculture, education, health, MGNREGA and rural infrastructure including roads. Special affliction will be given to programmes aspired for the poor and the under-privileged of the country.

Fiscal Consolidation: The union government remains firm on achieving the medium term target of 3% of GDP to boost public investment. The total additional public investment over and above the RE is planned to be ₹1.25 lakh crore out of which ₹70,000

crore would be capital expenditure from budgetary outlays. The current government will complete the journey to a fiscal deficit of 3% in 3 years. Thus, for the next three years, the targets are: 3.9%, for 2015-16; 3.5% for 2016-17; and, 3.0% for 2017-18. The ultimate target is to create job, eliminate poverty and to build infrastructure and in every subsequent year to increase the tax revenues of the Union, and the State Governments. From this national perspective of public finances, aggregate annual capital expenditure of the Governments, can be expected to rise significantly, by more than 0.5% of GDP.

The fiscal deficit target for the year 2014-15 has been maintained and the fiscal deficit to GDP ratio for 2015-16 has been pegged at 3.9%. On the revenue side, the gross tax receipts are budgeted to grow by 15.8% in the year 2015-16, from 8.0% growth in 2014-15 RE. The increase in service tax rate, increase in excise duty, and higher surcharge on direct taxes is likely to support the buoyancy anticipated in the gross tax revenue. The levy of 2.0% surcharge on the super rich with a taxable income of over ₹1 crore is expected to pick up ₹9000 crore. This is much higher than the tax collection of ₹1008 crore foregone with the withdrawal of wealth tax, where the yields have not been commensurate with the administrative costs. However, the net tax receipts are budgeted to increase by only 1.3% in the year 2015-16. With regard to expenditure, the total expenditure is estimated to rise by 5.7% in 2015-16 BE, with an 8.2% increase in non-plan expenditure and 0.6% decline in planned expenditure. While the planned expenditure on revenue account is budgeted to decline by 10%, on capital account it is budgeted to increase by 33.9% in 2015-16. The subsidy bill is expected at ₹2.4 lakh crore (1.7% of GDP) in 2015-16, which is a decline by 8.6% over the revised estimates for 2014-15. The decline in subsidies comes primarily on account of lower oil bill, which is estimated to decline by 50% in 2015-16 BE. The food and fertilizer subsidy are expected to increase marginally.

Good Governance: The Union Budget for 2015-16 also committed the need to trim subsidy leakages and advance to the process of rationalizing of subsidies. The direct transfer of benefits were seen in scholarship schemes will be further expanded with a view to increasing the number of beneficiaries from the present ₹1 crore to ₹10.3 crore. Similarly, ₹6,335 crore have so far been transferred directly, as LPG subsidy to ₹11.5 crore LPG consumers.

Agriculture and Unified National Agriculture Market: In the union budget 2015-16 an ambitious Soil Health Card Scheme has been launched to improve soil fertility on a sustainable basis. In order to improve soil health, there is also Agriculture Ministry's organic farming scheme – "Paramparagat Krishi Vikas Yojana". The Pradhanmantri Gram Sinchai Yojana is aimed at irrigating the field of every farmer and improving water use efficiency. The amount of ₹5,300 crore is allocated to support micro-irrigation, watershed development and the Pradhan Mantri Krishi Sinchai Yojana. There is a plan to allocate ₹25,000 crore in 2015-16 to the corpus of Rural Infrastructure Development Fund (RIDF) set up in NABARD. The government is trying to support employment through MGNREGA.

The focal point is on improving the quality and effectiveness of activities under MGNREGA. They have made an initial allocation of ₹34,699 crore for the programme. The announcement of Unified National Agriculture Market will help to curb the inflationary pressure in case of food commodities as well as provide better prices to farmers for their produce.

Funding the Unfunded Micro Small and Medium Enterprise (MSMEs): There are some ₹5.77 crore small business units, out of which 62% of these are owned by the backward classes. These bottom-of-the-pyramids, hard-working entrepreneurs find it difficult to access formal systems of credit. The authority proposed to create a Micro Units Development Refinance Agency (MUDRA) Bank, with a corpus of ₹20,000 crore, and credit guarantee corpus of ₹3,000 crore. MUDRA Bank will refinance Micro-Finance Institutions through a Pradhan Mantri Mudra Yojana. In lending, priority will be given to SC/ST enterprises. These measures will greatly boost the spirit of young, educated or skilled workers who would now be able to aspire to become first generation entrepreneurs to lead inclusive growth. The government is trying to establish an electronic Trade Receivables Discounting System (TReDS) financing of trade receivables of MSMEs, from corporate and other buyers, through multiple financiers. This should recover the liquidity in the MSME sector significantly. Bankruptcy law reform has been diagnosed as a key priority for improving the ease of doing business. SICA (Sick Industrial Companies Act) and BIFR (Bureau for Industrial and Financial Reconstruction) have failed in achieving these objectives.

Jan Dhan to Jan Suraksha: The launch of Pradhan Mantri Suraksha Bima Yojna will cover accidental death risk of ₹2 lakh for a premium of just ₹12 per year. Similarly the launch of Atal Pension Yojana, which will provide a defined pension, depending on the contribution, and its period. To inspire people to join this scheme, the government will contribute 50% of the beneficiaries' premium limited to ₹1,000 each year, for five years, in the new accounts opened before 31st December, 2015. The third Social Security Scheme, the Pradhan Mantri Jeevan Jyoti Bima Yojana is announced which covers both natural and accidental death risk of ₹2 lakhs. The premium will be ₹330 per year, or less than one rupee per day, for the age group 18-50. There is an emphasis on the creation of a Senior Citizen Welfare Fund, in the Finance Bill, for appropriation of these amounts to a corpus which will be used to subsidize the premiums of vulnerable groups such as old age pensioners, BPL card-holders, small and marginal farmers and others. There is a new scheme for providing Physical Aids and Assisted Living Devices for senior citizens, living below the poverty line. In sum, these social security schemes reflect our commitment to utilize the Jan Dhan platform, to ensure that no Indian citizen will have to worry about illness, accidents, or penury in old age. An integrated education and livelihood scheme called 'Nai Manzil' will be launched this year to enable Minority Youth who do not have a formal school-leaving certificate to obtain one and find better employment.

Infrastructure: There is an enormous demand to increase public investment. So outlays have been on both the roads and the gross budgetary support to the railways, by ₹14,031 crore, and ₹10,050 crore respectively. The CAPEX of the public sector units is expected to be ₹3,17,889 crore, an increase of approximately ₹80,844 crore over RE 2014-15. In fact, investment in infrastructure will go up by ₹70,000 crore in the year 2015-16, over the year 2014-15 from the Centre's Funds and resources of CPSEs. The government programmed to establish a National Investment and Infrastructure Fund (NIIF), and find monies to ensure an annual flow of ₹20,000 crore to it. Fourth, the PPP mode of infrastructure development has to be revisited, and revitalised. It has been intended to establish, in NITI, the Atal Innovation Mission (AIM). It will evolve a Platform involving academics, entrepreneurs, and researchers and draw upon national and international experiences to foster a culture of innovation, R&D and scientific research in India. Initially, a sum of ₹150 crore will be designated for this purpose. India has a well regarded and world-class IT industry with revenues of about US$ 150 billion, over US$ 100 billion of exports, employing nearly 40 lakh people directly. Government is endowing a mechanism to be known as SETU (Self-Employment and Talent Utilisation). SETU will be a Techno-Financial, Incubation and Facilitation Programme to support all aspects of start-up businesses, and other self-employment activities, particularly in technology-driven areas. The government initiated to launch the e-Biz Portal which integrates 14 regulatory permissions at one source. Good States are embracing and joining this platform. The Government also suggested setting up 5 new Ultra Mega Power Projects, each of 4000 MWs in the plug-and-play mode. All clearances and linkages will be in place before the project is awarded by a transparent auction system. This should unlock investments to the extent of ₹1 lakh crore. The Government would also consider similar plug-and-play projects in other infrastructure projects such as roads, ports, rail lines, airports etc. The second unit of Kudankulam Nuclear Power Station will be commissioned in 2015-16. The government will venture to enhance allocations to MGNREGA by ₹5,000 crore; Integrated Child Development Scheme (ICDS) by ₹1,500 crore; Integrated Child Protection Scheme (ICPS) by ₹500 crore; and the Prdhan Mantri Krishi Sinchai Yojana by ₹3,000 crore; and the initial inflow of ₹5,000 crore into the NIIF.

Financial Markets: To promote investment in the infrastructure sector India, the government is expanding the Indian Bond market and to bring at level of the world class equity market. The government is planning to set up a Public Debt Management Agency (PDMA) which will bring both India's external borrowings and domestic debt under one canopy. There is proposition to conglomerate the Forwards Markets Commission with SEBI to strengthen regulation of commodity forward markets and reduce wild speculation. Capital Account Controls is a policy, rather than a regulatory, matter. There is a proposition to create a Task Force to establish a sector-neutral Financial Redressal Agency that will address grievances against all financial service providers. There is a vision of putting in place a direct tax regime which is internationally competitive on rates, is without exemptions, incentivizes savings, and does not realize tax from intermediaries. Such a direct tax regime would match the modernized indirect taxes regime we are

putting in place by way of GST, and will bring greater investments. With regard to the dormant Employees Provident Fund (EPF) accounts it has been remarked that both EPF and ESI have hostages, rather than clients. Further, the low paid worker suffers deductions greater than the better paid workers, in percentage terms. With respect to the Employees Provident Fund (EPF), the employee needs to be provided two options. Firstly, the employee may opt for EPF or the New Pension Scheme (NPS). Secondly, for employees below a certain threshold of monthly income, contribution to EPF should be optional, without affecting or reducing the employer's contribution. With respect to ESI, the employee should have the option of choosing either ESI or a Health Insurance product, recognized by the Insurance Regulatory Development Authority (IRDA).

Gold Monetising: India is one of the largest consumers of gold in the world and imports as much as 800-1000 tonnes of gold each year. Though stocks of gold in India are estimated to be over 20,000 tonnes, mostly this gold is neither traded, nor monetized. The proposition is to introduce a Gold Monetisation Scheme, which will replace both the present Gold Deposit and Gold metal Loan Schemes. The new scheme will allow the depositors of gold to earn interest in their metal accounts and the jewelers to obtain loans in their metal account. Banks/other dealers would also be able to monetize this gold. It will also develop an alternate financial asset, a Sovereign Gold Bond, as an alternative to purchasing metal gold. The Bonds will carry a fixed rate of interest, and also be redeemable in cash in terms of the face value of the gold, at the time of redemption by the holder of the Bond. Such an Indian Gold Coin would help reduce the demand for coins minted outside India and also help to recycle the gold available in the country. The only way to curb the flow of black money is to discourage transactions in cash.

Investment: Alternate Investment Funds Regulations have been notified by SEBI. Such alternate investment funds provide another vehicle for facilitating domestic investments. The government proposes to allow foreign investments in Alternate Investment Funds. To further simplify the procedures for Indian Companies to attract foreign investments government proposes to do away with the distinction between different types of foreign investments, especially between foreign portfolio investments and foreign direct investments, and replace them with composite caps. The sectors which are already on a 100% automatic route would not be affected. The 'Act East' policy of the Government of India endeavors to cultivate extensive economic and strategic relations in South-East Asia. In order to catalyze investments from the Indian private sector in this region, a Project Development Company will, through separate Special Purpose Vehicles (SPVs), set up manufacturing hubs in CMLV countries, namely, Cambodia, Myanmar, Laos and Vietnam.

Safe India: The Government is committed to safety and security of women. In order to support programmes for women security, advocacy and awareness, the government have assured to provide another ₹1,000 crore to the Nirbhaya Fund.

Tourism: India has 25 Cultural World Heritage Sites. These facilities are still deficient and require restoration, including landscape restoration; signage and interpretation centres; parking; access for the differently abled; visitors' amenities, including securities and toilets; illumination and plans for benefiting communities around them. Present government has recommended to provide resources to start work along these lines for the following Heritage Sites: such as Churches & Convents of Old Goa, Hampi, Karnataka, Elephanta Caves, Mumbai, Kumbalgarh and other Hill Forts of Rajasthan, Rani ki Vav, Patan, Gujarat, Leh Palace, Ladakh, J&K, Varanasi Temple town, UP, Jalianwala bagh, Amritsar, Punjab, Qutub Shahi Tombs, Hyderabad, Telengana. After the success of VISAS on arrival issued to travelers of 43 countries, the government proposes to increase the countries covered to 150, in stages.

Green India: The present government are committed to make our development process as green as possible. Our de facto 'Carbon Tax' on most petroleum products compares favourably with international norms. With regard to coal, there is a need to find a balance between taxing pollution, and the price of power. The government is also launching a Scheme for Faster Adoption and manufacturing of Electric Vehicles (FAME). They are proposing an initial outlay of ₹75 crore for this Scheme in 2015-16. The Ministry of New Renewable Energy has revised its target of renewable energy capacity to 1,75,000 MW till 2022, comprising 100,000 MW Solar, 60,000 MW Wind, 10,000 MW Biomass and 5000 MW Small Hydro.

Skill India: India is one of the budding nations in the world with more than 54% of the total population below 25 years of age. There is the need of the young people have to be both educated and employable for the jobs of the 21st Century. Yet today less than 5% of our potential workforce gets formal skill training to be employable and stay employable. The government is devising to launch a National Skills Mission through the Skill Development and Entrepreneurship Ministry. To enhance the employability of rural youth the government has launched the Deen Dayal Upadhyay Gramin Kaushal Yojana. ₹1,500 crore has been set apart for this scheme. Disbursement will be through a digital voucher directly into qualified student's bank account. With a view to enable all poor and middle class students to pursue higher education of their choice without any constraint of funds, the government tried to set up a fully IT based Student Financial Aid Authority to administer and monitor Scholarship as well Educational Loan Schemes, through the Pradhan Mantri Vidya Lakshmi Karyakram. The government also intended to provide one major Central Institute in each State. In the fiscal year 2015-16, government proposed to set up All India Institutes of Medical Sciences (AIIMS) in J&K, Punjab, Tamil Nadu, Himachal Pradesh and Assam, Bihar. They proposed to set up an IIT in Karnataka, and upgrade Indian School of Mines, Dhanbad into a full-fledged IIT. They also planned to set up a Post Graduate Institute of Horticulture Research and Education in Amritsar. IIMs will be setup in J&K and Andhra Pradesh. In Kerala, suggestion was given to upgrade the existing National Institute of Speech and Hearing to a University of Disability Studies and Rehabilitation. The government also scheduled to set three new National Institutes of

Pharmaceutical Education and Research: in Maharashtra, Rajasthan, and Chattisgarh and an Institutes of Science and Education Research in Nagaland and Odisha. They also expected to set up a Centre for Film Production, Animation and Gaming in Arunachal Pradesh, for the North-Eastern States; and Apprenticeship Training Institute for Women in Haryana and Uttrakhand.

Digital India: An attempt has been taken towards making Digital India. The National Optical Fibre Network Programme (NOFNP) of 7.5 lakh kms. Networking 2.5 lakh villages is being further speeded up by allowing willing States to undertake its execution, on reimbursement of cost as determined by Department of Telecommunications. Andhra Pradesh is the first State to have opted for this manner of implementation.

Special assistance will be given to Bihar and West Bengal by the Government of India. As regards Andhra Pradesh and Telengana, the Government is committed to comply with all the legal commitments made to these States at the time of reorganization. In spite of the large increase in devolution to states, which implies reduced fiscal space for the Centre in the same proportion we are committed to the welfare of the poor and the neo-middle class. The amount of ₹68,968 crore allocated to the education sector including mid-day meals, ₹33,152 crore to the health sector and ₹79,526 crore for rural development activities including MGNREGA, ₹22,407 crore for housing and urban development, ₹10,351 crore for women and child development, ₹4,173 crore for Water Resources and Namami Gange. The government took the initiation in progressing for DMIC corridors: the Ahmedabad-Dhaulera Investment Region in Gujarat, and the Shendra–Bidkin Industrial Park near Aurangabad, in Maharashtra, is now in a position to start work on basic infrastructure. In the current year the initial sum of `1,200 crore have been initiated. The Government has already permitted FDI in defence so that the Indian-controlled entities also become manufacturers of defence equipments, not only for us, but for export. Government is pursuing the Make in India policy to achieve greater self-sufficiency in the area of defence equipment, including aircraft. As against likely expenditure of this year of ₹2,22,370 crore the budget allocation for 2015-16 is ₹2,46,727 crore. GIFT in Gujarat was envisaged as International Finance Centre that would actually become as good an International Finance Centre as Singapore or Dubai, which, incidentally, are largely manned by Indians.

Part B

Direct Tax Proposals

Tax Rates: The government proposed to reduce the rate of Corporate Tax from 30% to 25% over the next 4 years which will lead to higher level of investment, higher growth and more jobs. There is no change in basic exemption limit and slab rates for individuals. Surcharge has been increased from 10% to 12% on income-tax for income exceeding ₹1 crore. There is also no change in basic rate of Dividend Distribution tax (DDT) and Tax on buy-back of shares (BBT). In case of domestic companies, the rate of surcharge has been increased by 2%. {now to be levied at 7% if the total income exceeds Rs. 1 crore but does

not exceed ₹10 crore and at 12% if the total income exceeds ₹10 crore} In case of foreign company, surcharge continues to remain the same. Surcharge increased by 2% and to be levied at 12% on additional income tax payable by companies on distribution of dividends and buy-back of shares, by mutual funds and securitisation trusts on distribution of income. Education cess continues at 3% on the amount of income-tax and surcharge, if any.

General Anti Avoidance Rule (GAAR): Implementation of the General Anti Avoidance Rule (GAAR) has been a matter of public debate. Further, it has also been decided that when implemented, GAAR would apply prospectively to investments made on or after 01.04.2017.

Rate of tax for technical services (FTS): The basic rate of taxing income of non-residents in the nature of royalty and FTS has been proposed to be reduced from 25% on gross basis to 10% on gross basis.

Tax Residency provision for companies – Effective Management Concept introduced: Amendment has been proposed to provide that apart from an Indian company, any company whose place of effective management at any time during the year is in India, it shall be considered to be resident of India.

Indirect transfer of assets: The share or interest of foreign company/foreign entity is deemed to derive its value substantially from Indian assets, the value of such Indian assets exceeds Rs. 10 crore and it represents at least 50% of the value of all assets owned by the foreign company or entity. The valuation of the assets to be done to get its Fair Market Value and the underlying aggregate gains to be apportioned proportionately to Indian assets as per methods. Indirect transfer provisions would not apply to the transferor shareholder of the foreign company holding the Indian assets directly and whose shares/interest are getting transferred if the transferor (along with the AEs) has neither the right to control or manage the foreign company nor holds voting power or share capital or interest exceeding five per cent therein.

Tax Incentives for backward areas: Additional investment allowance (15%) and additional depreciation (35%) proposed for new manufacturing units set up during the period April 1 2015 to March 31 2020 in notified backward areas of Andhra Pradesh and Telangana.

Abolition of wealth-tax: The cancellation of wealth tax has been proposed. The information regarding the assets which are currently required to be furnished in wealth-tax return will be captured in the income tax return. The government decided to abolish the wealth tax and replace it with an additional surcharge of 2% on the super-rich with a taxable income of over ₹1 crore.

Taxation of Real Estate Investment Trusts (REITs) and Infrastructure Investment trusts (Invits)

Capital gains on transfer of units of Invits and REITs by sponsor: At the time of disposal (under an IPO listing or sale thereafter) of the units of the REIT/Invit (i.e. business trust), the sponsor of REITs/Invit would be eligible for concessional Security transaction tax (STT) based capital gains tax regime on par with other investors (i.e. Long term capital gain on transfer of units would be exempt and Short term capital gain would be taxable @ 15%, provided STT @ 0.2% is paid on the sale of such units).

Tax treatment of the rental income arising to REIT from real estate property directly held by REIT: It has been proposed to provide that the rental income arising to REIT from the real estate property directly held by REIT eligible for pass through status. Accordingly, such income will be exempt for the REIT and chargeable to tax in the hands of the REIT unit holders on distribution. The tenant or lessee is not required to withhold tax on payment of rent to REIT, but the REIT in turn would withhold tax at 10% on distribution of such income to the resident unit holders and at applicable rates on the distribution to the non-resident unit holders.

Donation towards Clean and Drug Abuse Initiatives: Donation (other than sum expended in CSR) to Swachh Bharat Kosh, Clean Ganga Fund and National fund for Drug Abuse would be eligible for 100% deduction.

Relief from MAT to FIIs: Income from transactions in securities {other than Short term capital gains arising on which Securities transaction tax (STT) is not chargeable} arising to FII excluded from the ambit of MAT by excluding both income and corresponding expenses in the computation.

Safe harbour - for offshore funds with an Indian fund manager: To facilitate location of fund managers in India of offshore funds, it is proposed that fund management activity undertaken in India by an eligible fund manager on behalf of an eligible offshore fund will not constitute a business connection for the offshore fund in India. The key qualifying criterions for an eligible fund has also been provided.

Measures to curb black money: Amendment has been proposed in the Act to prohibit acceptance or repayment of an advance of ₹20,000 or more in cash for purchase of immovable property. Benami Transactions (Prohibition) Bill to curb domestic black money to be introduced in the current session of Parliament. In line with the amendments to Prevention of Money Laundering Act, 2002, FEMA is amended to provide that if any foreign exchange, foreign security or any immovable property situated outside India is held in contravention of provisions of FEMA, then action may be taken for seizure and eventual confiscation of equivalent value of assets in India. Such contraventions will also be liable for penalty and prosecution. It has been proposed to mandate to quote PAN for any purchase or sale exceeding ₹1 lakh. Third party reporting entities to furnish information about foreign currency sales and cross border transactions.

Concessional withholding rate for FII and QFI: The eligible period of concessional tax rate of 5% on interest income earned by FII and/or QFI on Government securities and rupee denominated corporate bonds has been proposed to be extended by two years i.e. from June 30, 2015 to June 30, 2017.

Other Proposals: Threshold for applicability of domestic transfer pricing has been proposed to be increased from ₹5 crores to ₹20 crores. Understatement of income under MAT/AMT provisions also made liable for concealment penalty. Foreign tax credit rules and procedures for granting credit for any income-tax paid in any country or specified territory outside India to be notified. Tax pass through has been proposed to SEBI registered Category I and Category II AIF, subject to certain conditions. 'Yoga' included as a specific category in the definition of 'charitable purpose'. Investment in Sukanya Samriddhi Account Scheme (SSAS) in the name of any girl child of the individual shall be eligible for deduction under Section 80C of the Income tax Act. Interest accruing on deposits in SSAS and withdrawals from SSAS proposed to be exempt from tax. Contribution to National Pension Scheme (NPS) and notified pension schemes to be increased from ₹1 lakh per annum to ₹1.5 lakhs, subject to conditions and overall limits towards specified investments. It has also been proposed to provide additional deduction of ₹50,000 per annum to be available in respect of individual's contribution to NPS. Exemption from transport allowance to be increased from ₹800 per month to ₹1600 per month. Deduction in relation to health insurance premium under section 80D of the Act has been proposed to be increased from ₹15,000 to ₹25,000. In case of senior citizens, the limit has been raised to ₹30,000.

Indirect Tax Proposals

Central Excise: The standard rate of excise duty propounded to be changed from 12 percent to 12.5 percent. Education cess and secondary and higher education cess subsumed into excise duty. Increase in excise duty on cigarettes, cigar, cheroots and cigarillos. Also, suggested increase in clean energy, cess on coal from INR 100 per tonne to INR 200 per metric tonne. The rate of excise duty on mineral water, aerated water, etc. increased from 12 percent to 18 percent. Additional excise duty of 5 percent abolished on such goods. To encourage domestic manufacture of tablet computers and mobiles: - Rate of excise duty on tablet computers and mobiles restructured to 2 percent (with no CENVAT credit) or 12.5 percent (with CENVAT credit); and - Parts, components or accessories and sub-parts used in the manufacture of tablet computers exempted from excise duty. Goods supplied against International Competitive Bidding ("ICB") are exempt from excise duty if the import of goods attracts 'nil' customs duty. For claiming excise duty exemption, conditions for availing customs duty exemption need to be cumulatively satisfied. As an important trade facilitation measure, first stage dealers, second stage dealers and registered importers permitted to send the goods to the buyers' premises directly from the manufacturer's / importer's premises, without receiving such goods in its premises.

Service Tax

Rate of Service tax: The government suggested the Service tax rate to be increased to 14 percent; education cesses to be withdrawn. Swachh Bharat cess at the rate of 2 percent on value of taxable services proposed; effective rate of service tax would increase to 16 percent. No clarity on the CENVAT credit eligibility of cess paid; absence of credit may lead to cascading effect.

Expansion in scope of levy of service tax: All services provided by Government or local authority to a business entity would henceforth be subject to tax, except few services in negative list. Service tax to be levied on contract manufacturing / job work for production of alcoholic beverages. Access to amusement facility like rides, gaming, amusement parks, water parks, etc. to be subjected to tax.

Withdrawal / restriction of exemptions: Exemptions have been withdrawn for services by way of construction, erection, commissioning etc. to Government; services by way of construction, erection, commissioning, etc. of airports or ports; and services provided by a mutual fund agent or distributor to a mutual fund or assets management company; exemption to transportation of foodstuff by rail, road or vessel has been restricted to milk, salt, food grains including flours, pulses and rice.

Valuation: Taxability of reimbursable expenses and costs incurred by the service provider in course of providing the services reiterated .Uniform abatement of 70 percent has been prescribed for service of transportation of goods by road, rail and sea. Service tax is payable on 30 percent of the value without CENVAT credit on inputs, capital goods and input services. Service tax on service of transportation of passengers by air, in any class other than economy class, to be levied on 60 percent of value as against 40 percent of the value for economy class.

Reverse charge: Specific provisions have been made for taxation of services involving aggregator using a web based software application and communication device and under the brand name of aggregator. Definitions of aggregator and brand name provided - Liability to tax is required to be discharged by the aggregator / agent - Aggregators located outside India are required to appoint an agent in India. Reverse charge liability has been extended to services provided by mutual fund agents and distributors. Services of supply of manpower or security service have been converted from partial reverse charge to full reverse charge mechanism.

CENVAT credit rules: Agreeing to the industry demand, the time period for taking credit on inputs and input services has been enhanced from six months to one year. The expression 'export goods' defined as goods sent outside India for the purpose of refund of unutilised credit. As a result, refund would not be available for supplies to SEZ units, Deemed Exports transactions (like Export Oriented Units). In a move to rationalise levy of multiple taxes, Education Cess has been subsumed into effective rate of excise duty / service tax. No clarity on the ability of the taxpayer to utilise, unutilised credit balance of

Education Cess. As a trade facilitation measure, credit to a taxpayer extended in following job-work situations: Where the inputs are sent directly to a job-worker's premises. Credit would be admissible even if the goods are sent by one job worker to another for further processing and the taxpayer receives back the processed goods. Where the capital goods are sent directly to a job-worker's premises. The time limit for receiving back the capital goods from job-worker enhanced from 180 days to two years. Credit of services tax paid under partial reverse charge now available on payment of service tax. Going forward, the availability of credit not linked with the payment of value of service to vendor CBEC circular has been issued to clarify 'place of removal' for export goods for claiming credit on transportation service.

Customs: The Median rate of Basic Customs Duty ("BCD") has been retained at 10 % and effective customs duty rate increased on account of increase in Countervailing Duty ("CVD") rate of 12.5 percent. An offence related to false declaration / false documents, etc. under the customs law would now be considered an offence under the Money Laundering Act. Customs duty reductions with actual user condition, with an aim to: Address inverted duty structure on account of BCD on finished product being lower than BCD on raw material or intermediate goods, to reduce cost of raw materials for manufacturing in India and Reduce CENVAT credit accumulation especially on account of Special Additional Duty of Customs ("SAD"). Government reduced customs duty for certain organic chemical, products required under Digital India, specific healthcare products, and for specific renewable energy products. Exemption have been done to High Density Polyethylene for manufacture of telecommunication grade optical fibres or optical fibre cables to promote National Optical Fibre Network Programme of 7.5 lakh kms for connecting 2.5 lakh villages, under the Digital India programme. Specific digital video cameras and parts and accessories of these digital video cameras would now attract nil rate of BCD. There has been increase in CVD rate on import of tablet computers and mobile phones from 6 to 12.5 percent on account of corresponding change in excise rate. BCD on commercial vehicles increased to 40 percent; however, exemption provided: For Completely Knocked Down imports are containing all the necessary components, parts or sub-assemblies, for assembling a complete vehicle with engine, gearbox and transmission mechanism not in a pre-assembled condition, leading to effective BCD of 10 percent.

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