

NATIONAL SCHOOL OF BANKING

BUDGET/2018-2019

UNION BUDGET 2018-2019

Presented by Union Finance Minister Shri Arun Jaitley
on 1st February, 2018 in Parliament, New Delhi.

BUDGET - HIGHLIGHTS -

- **FARM FOCUS** : Crop MSP in kharif season to be decided at 50% over costs.
- **POOR FIRST** : 80 million women to be given free gas connections; 40 million to get power connections.
- **AFFORDABLE HOUSING** : Every poor person to have own house by 2022; dedicated affordable housing fund to be set up.
- **SENIOR CITIZENS** : Interest on fixed deposits up to Rs.50,000 exempted from tax, Rs.50,000 exemption for health insurance and medical expense.
- **REAL ESTATE DEALS** : No adjustment to be made in case circle rate does not exceed 5% of sale consideration.
- **EDUCATION** : Income tax cess increased to 4% from 3%; blackboard to digital board schools by 2022.
- **PETROLEUM** : Excise on unbranded petrol and diesel cut by Rs.2; cess up Rs.2.
- **HEALTHCARE** : 5000 crore Indians will be provided Insurance, capped at Rs.500,000. Rs.500,000 per family per year health insurance coverage for 1000 crore families (Presumption - 5 members per family).

1. CUSTOMS DUTIES -

- Hiked in many Sectors, Phones and TVs to be Pricier.
- **The hike in customs duty on mobiles is one way to incentivise domestic manufacturing, the aim is to make India an important Hub for manufacturing electronics.**

Customs duties on over 50 items have been increased by five per cent to 40 percent, to push the Made in India agenda. The products include mobile phones, fruit juice sand vegetable juices, perfumes and toiletries, automobile parts, KDC imports of motor vehicles, footwear, imitation jewellery, furniture, watches and clocks, toys and games, sunglasses, cigarette lighters, and silk fabrics, among other items. Duties on LCD, LED and OLED panels of LCD, LED and OLED TVs have been increased from 15 percent from the earlier 7.5-10 percent; on mobile phones from 15 percent to 20 percent; and on cranberry juice from 10 percent to 15 percent. Duties on sunglasses and cigarette lighters have been hiked from 10 percent to 20 percent.

- **Customs duty hiked on mobiles, TV parts** : To further incentivise the domestic value addition and Make in India, the customs duty on mobile phones will be increased from 15 per cent to 20 per cent, on some of their parts and accessories to 15 per cent and on certain parts of TVs to 15 per cent. This aim is also to create more jobs in India.
- **Changes in Customs Act to ease business** : Changes in the Customs Act, 1962, will be made to further improve the ease of doing business in cross-border trade, and to align certain provisions with commitments under the Trade Facilitation Agreement. Dispute resolution processes will be smoothened and efforts made to reduce litigation.

2. STOCK & BONDS -

- **10% tax on long-term capital gains exceeding Rs.100,000, to yield Rs.200 bn.**
- Long-term capital gains exceeding Rs.100,000 will now be taxed at the rate of 10 per cent

without allowing the benefit of indexation. Gains from equity shares held for up to one year will remain short-term capital gains and will continue to be taxed at the rate of 15 per cent.

3. **CORPORATION TAX** -

- **Reduced to 25% for firms with turnover upto Rs.250 crores.**
- **Firms with sales of up to Rs.250 crores to pay 25% tax :** Companies with a turnover of up to Rs.250 crore in 2016-17 will now pay a lower corporate tax rate of 25 per cent. **This will benefit the entire class of MSMEs, which accounts for 99 per cent of companies filling tax returns. The lower tax rate will leave them with higher investible surpluses.**

4. **TAXPAYERS DATA** -

- **following introduction of GST, number of effective taxpayers grows to 82.7 million**
- **number of PAN cards (October 2017)- 347 million**
- **number of current/savings bank accounts (December 15, 2017) - 1,064 million**
- number of Pradhan Mantri Jan Dhan Yojana accounts (December 20, 2017) - 308 million
- PAN cards linked with Aadhaar (December 15, 2017) - 150 million
- Bank accounts linked with Aadhaar* (December 15, 2017) - 825 million
- Jan Dhan accounts linked with Aadhaar (December 20,2017) - 226 million

5. **ECONOMY** -

- Rs.166,27,000 crore is the size of the economy, currently the seventh largest in the world.
- Rs.80000 crore disinvestment target for 2018-19. Merger of three insurance firms on cards.
- 15% growth in exports expected in 2017-18.
- **Mr. Jaitley has rightly underlined the above-normal increase in the number of taxpayers as well as the remarkable tax buoyancy of the last couple of years-raising the tax-to-GDP ratio to possibly its highest ever level of 12.1 per cent** (up handsomely from 10.1 per cent in the last Budget of the previous government. If one looks at next year's Budget projections, with 2016-17 as the base year, then direct tax revenue is projected to grow 28 per cent, and indirect taxes 29.5 per cent over the two-year period. That is annual growth of nearly 14 per cent overall, and creditable for a period that saw a marked slow-down in economic growth.
- Fiscal Deficit : Govt. will miss targets both in 2018 and 2019.

6. **AGRICULTURE** -

- Rs.14,34,000 crore amount to be spent on infrastructure to connect farmers and markets.
- **Incentive for post-harvest activities in agriculture : To encourage professionalism in post-harvest value addition in agriculture, entities registered as farmer producer companies, and having an annual turnover of up to Rs.100 crore, will be allowed 100 per cent deduction of profit derived from such activities for a period of five years from F.Y. 2018-19.**
- **Upgrade for agricultural markets :** The government will **upgrade the existing 22,000 rural haats into Gramin Agricultural Markets (GrAMs)**. The physical infrastructure in these GrAMs will be strengthened. The GrAMs, **exempted from regulations of APMCs, will enable farmers to sell directly to bulk purchasers.**
- **Focus on linking habitations with rural markets :** The deadline for connecting all eligible habitations with an all-weather road has been advanced to March 2019, from March 2022.

- The focus will be on widening its ambit further to **include major link routes which connect habitations to GrAMs, higher secondary schools and hospitals.**
- **Big push lined up for organic farming** : Organic farming by Farmer Producer Organisations and Village Producers' Organisations **in large clusters, preferably of 1,000 hectares each, will be promoted.** Women's Self Help Groups will also be encouraged to take up organic agriculture in Rural Livelihood Programme.
 - **Govt. to support cultivation of medicinal plants** : The government will **allocate Rs.200 crore to support a large number of small and cottage industries** that manufacture perfumes, essential oils and other associated products. This is because the ecology of the country **supports cultivation of highly specialised medicinal and aromatic plants.**
 - **Allocation for food processing doubled** : With the food processing sector growing at eight per cent a year, the government has decided to **double the allocation to this sector, from Rs.715 crore in 2017-18 (revised estimates) to Rs.1400 crore in 2018-19.** The **PM Krishi Sampada Yojana is the flagship programme** for boosting investment in food processing.
 - **'Operation Green' to be launched to push farm exports** : The government has allocated Rs.500 crore to launch Operation Green on the lines of Operation Flood. Operation Green will promote Farmer Producers Organisations, agri-logistics, and processing facilities, State-of-the-art testing facilities will be set up in all 42 Mega Food Parks to push agri-exports.
 - **Kisan Credit Cards extended to newer areas** : The government has proposed to **extend the facility of Kisan Credit Cards (KCC) to fisheries and animal husbandry farmers to help them meet their working capital needs.** Small and marginal farmers will get more benefits. KCC is basically a credit delivery scheme enabling quick and affordable credit.
 - **Big push for bamboo in mission mode** : The government will launch a re-structured National Bamboo Mission with an **outlay of Rs.1290 crore to promote the bamboo sector** in a holistic manner giving a major fillip to its cultivation and usage. It had earlier removed bamboo grown outside forest areas from the definition of trees,
 - **Govt. to buy farmers' surplus solar power** : The Union government will encourage state governments to put in place a mechanism to ensure that **surplus solar power generated by farmers on their lands is purchased by distribution companies or licensees at remunerative rates.** Many farmers installing solar water pumps to irrigate fields.
 - **New funds to push fisheries and animal husbandry** : In all, **Rs.10000 crore** has been allocated to set up a Fisheries and Aquaculture Infrastructure Development Fund (FAIDF) for the fisheries sector and an Animal Husbandry Infrastructure Development Fund (AHIDF) for **financing the infrastructure requirement of the animal husbandry sector.**
 - **Credit for lessee cultivators who do not get crop loans** : **NITI Aayog, in consultation with state governments, will evolve a mechanism that gives lessee cultivators access to credit without compromising the rights of the land owners.** Presently, lessee cultivators are not able to avail of crop loans, and so, a significant proportion of arable land remains fallow.
 - **Scheme to reduce air pollution in northern states** : The government will **subsidise machinery required for the management of crop residue, which has been a major cause for air pollution in the Delhi-NCR region. A special scheme will be implemented** to support the efforts of Haryana, Punjab, Uttar Pradesh and the NCT of Delhi to address this problem.
 - **Push for irrigation in deprived districts** : Rs.2600 crore has been allocated for groundwater irrigation under the Prime Minister Krishi Sinchai Yojna - **Har Khet Ko Pani,**

which will be taken up in 96 deprived irrigation districts where less than 30 per cent of the land holdings presently get assured irrigation. Excessive dependence on the monsoon is the bane of Indian agriculture.

7. **PERSONAL TAX** -

- **Rs.40,000 standard deduction for transport, medical expenses for salaried taxpayers.**
- To provide relief to salaried taxpayers, a standard deduction of Rs.40,000 will be allowed in lieu of the present exemption for transport allowance and reimbursement of miscellaneous medical expenses. However, enhanced transport allowance for the differently-abled will continue.
- 4% health and education cess, up from 3 per cent earlier on personal income tax.

8. **VENUE & EXPENDITURE** -

- **Rs.74, 00,000 crore revenue is estimated** through GST collection in 2018-19.
- The Centre will receive GST revenues in 2017-18 for 11 months instead of 12 months.
- **Rs.21,57,000 crore is the Revised Estimate for expenditure** in 2017-18.
- **Rs.14,34,000 crore** budgeted for creation of livelihood and infrastructure in rural areas.
- **Rs.1,38,000 crore** earmarked for social sector, including health and education.
- **Rs.1200 crore** outlay to set up 150,000 health and wellness centres.

9. **INDUSTRY** -

- **Benefits for job creation in footwear industry :** To encourage new job creation, the concession given to the apparel industry, whereby certain deductions are allowed for emoluments paid to eligible new employees who have been employed for a minimum of 150 days during the year, will now be extended to the footwear and leather industry.

10. **MUTUAL FUNDS** -

- **10% tax on income distributed by equity MFs :** The Finance Minister has proposed a tax on distributed income by equity-oriented mutual funds at the rate of 10 per cent. The aim is to provide level playing field across growth oriented funds and dividend distributing funds. (The dividend distribution tax rate amounts to 28.84 per cent).

11. **CESS** -

- **New health and education cess to be levied :** To take care of the education and health needs of "below poverty line" families and rural families, the existing three per cent education cess on personal income tax and corporation tax will henceforth be replaced by a four per cent health and education cess to be levied on the tax payable.
- **New 10% social welfare surcharge levied :** The education cess and secondary and higher education cess on imported goods will be abolished, and be replaced by a social welfare surcharge, at the rate of 10 per cent of the aggregate duties of customs, on imported goods, to provide for government social welfare schemes.

12. **GDP & FISCAL DEFICIT** -

- **7.5% GDP growth** in first three years of the government.
- **3.3% fiscal deficit target** for 2018-19.
- **2.2% revenue deficit** estimated for 2018-19.

13. **WOMEN** -

- **30 million** more women to be provided free gas connections.
- **Big targets for various schemes for women** : The PM's Ujjwala Scheme, under which free LPG connections were given to 50 million poor women, will now be targeted at 80 million poor women. Under the PM's Saubhagya Yojana for providing electricity to all households, the government is spending Rs.60 billion. Around 20 million toilets are also to be constructed.

14. **POOR** -

- **Comprehensive social security for the vulnerable** : **Rs.99.75 crore** has been allocated to the National Social Assistance Programme, which is meant to provide a comprehensive social security and protection programme and reach every household of old, widows, orphaned children and the deprived, according to the latest Socio-Economic Caste Census.

15. **EDUCATION** -

- **A district-wise strategy for better education** : Concerned about the quality of education, the government has now defined learning outcomes after the National Survey of more than two million children was conducted to assess the status on the ground. This will help in **devising a district-wise strategy for improving the quality of education**.
- **Move to create better teachers through training** : The government will initiate an integrated BEd programme for teachers. The Right to Education Act has been amended to **enable more than 1.3 million untrained teachers to get trained**. The government also proposes to increase the digital intensity in education and **move gradually from the "blackboard" to the "digital board"**.
- **Push for quality education for tribals and STs** : To provide quality education to tribal children in their own environment, every block with more than 50 per cent ST population and at least **20,000 tribal persons**, will have an **Ekalavya Model Residential School by the year 2022**. Ekalavya schools will be on a par with Navodaya Vidyalayas and will have special facilities.
- **New institutes of eminence and architecture** : The government is setting up a specialised Railways University at Vadodara. It will also set up two **new full-fledged Schools of Planning and Architecture (SPA)**, to be selected in the challenge mode. Additionally, 18 new Schools of Planning and Architecture will be established in the IITs and NITs as autonomous schools.
- **New research fellow scheme to be launched** : The government will launch the Prime Minister's Research Fellows (PMRF) Scheme this year. **It will identify 1,000 best BTech students each year from premier institutions and provide them with facilities to do a PhD at IITs and IISc, with a handsome fellowship**. They will also be expected to teach part time.

16. **GENERAL** -

- **Tax breaks for IFSCs to promote trade in bourses** : To promote trade in bourses located in International Financial Services Centres, the **transfer of derivatives by non-residents will be exempted from capital gains tax**. **Non-corporate taxpayers in an IFSC will also be charged Alternate Minimum Tax at the nine per cent rate** applicable to companies.
- **Limits placed on cash payments by trusts** : Payments exceeding Rs.10,000 in cash

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made by trusts and institutions will be disallowed, and will be subject to tax. Further, in order to improve TDS compliance by these entities, in case of non-deduction of tax, 30 per cent of the amount will be disallowed and will be taxed.

- **E-assessment income tax roll-out across India** : E-assessment, introduced in 2016 on a pilot basis and extended to 102 cities in 2017, with the aim of transforming the decades-old assessment procedure of the income tax department and the manner in which they interact with taxpayers, is now to be rolled out country-wide.
- Rs.500,000 revised emoluments for President and Rs.400,000 for Vice President.

17. RAILWAYS -

- **Rs.148000 crore** pegged as railway capex for 2018-19.
- **4,000 km.** targeted for optimal electrification of railway network in 2017-18.
- **12,000** wagons, 5,160 coaches, 700 locomotives to be procured in 2018-19.

18. DEFENCE -

- The 2018-19 Budget has raised defence allocations from the current year's revised estimate of Rs.374000 crore to Rs.404000 crore, an increase of Rs.30361 crore, or 8.1 per cent, which, analysts say, is insufficient to even cover year on year inflation in manpower and equipment costs.
- These figures include all government expenditure on defence, such as allocations to the ministry, defence pension, revenue and capital expenditure, research and development (R&D), and production. The defence ministry, for reasons unclear, excludes pension from the Budget figures.

WRAP-UP -

- The Finance Minister, Arun Jaitley, has presented a Budget that looks good from all sides, but one that deserves closer scrutiny to better understand the fiscal maths, and the implications for economic growth. **Attention must be paid in particular to the response of the bond market to the government's borrowing programme. A higher interest rate regime, if it materialises, carries with it the risk of a slower economic recovery.**
- Even with restraints on spending, the borrowing budget for 2019 has sent shivers down the spine of the bond market. Compared to a year ago, interest rates are now up by well over a percentage point. This is the opposite direction from that which the Reserve Bank has been signalling. **The question is whether RBI will feel obliged to reverse direction and start raising policy rates-prodded also by rising inflation pressures and the prospect of higher kharif crop prices, indicated by the Finance Minister. A full-fledged economic recovery is hard to achieve in an environment of rising interest rates.**
- The FM has pushed for greater progression in taxation of individual income, in incremental stages, while the **corporate tax structure has been skewed to benefit small-and medium-scale companies.** He has also done well to introduce **taxation of long-term capital gains** for investment in shares and equity mutual funds. **This focus on progressivity in taxation is welcome in the context of growing inequality when it comes to the benefits of growth.**
- **The most important tax changes are not the ones on which the Finance Minister spent time, but in what was mentioned almost in passing a substantial and wide-ranging increase in customs tariffs when it comes to a variety of consumption**

items. Regardless, prices of a range of consumer items should go up. This would raise legitimate concerns about industry-specific protectionism, though the fact also is that **customs revenue as a whole is barely 4 per cent of total goods imports-not the sign of a protectionist economy.** Perhaps the intention is to give a push to the floundering "Make in India" programme.

- On the expenditure side, Mr. Jaitley has boosted investment in the physical infrastructure, mainly transport. From the perspective of next year's general elections, he has announced what the government clearly intends to market as a **signature programme, in the form of a sharply expanded health insurance scheme to cover 40 per cent of the population.**
- Lots of money is to be spent on the well-being of the weakest and most vulnerable Indians. Introducing the scheme, Mr. Jaitley first said the thing is to have a total of a half a billion beneficiaries. **The medical insurance programme could cost about Rs.20000 crore. It is the world's largest government health programme, bigger than the United Kingdom's magnificent National Health Service or than America's Medicare and Medicaid not in terms of the spend, but in terms of coverage. Many Indians have no access to a good hospital and so an insurance scheme is not necessarily the solution for them. One wishes the government had focused its money on setting up more public hospitals, since the existing ones have many times more patients than they can handle. An equally important aspect was the announcement to set up 150,000 wellness centres in villages.** One awaits the details of both schemes, but if it turns out that the allocations do not match the rhetoric, severe repercussions will follow. As for the defence Budget, it sucks out Rs.10000 crore a day from our treasury. Mr. Jaitley made no mention of it and one hopes that was because it carries severe cuts.
- **The Finance Minister has managed to create a reasonable balance by meeting populist demands and supporting economic growth by focusing on fiscal discipline and reforms. As expected, the budget focused on farmers, agriculture, rural development and infrastructure. The long term capital gain tax was introduced as anticipated and the execution is indeed well thought out. It has created a level playing field across asset classes, will garner tax revenues, curb malpractices and seems non-disruptive. Having a 10% tax on long term gains will also reduce churn in mutual fund products.**


