NATIONAL SCHOOL OF BANKING

BUDGET/2019-2020

UNION BUDGET 2019-2020

Presented by Union Finance Minister Nirmala Sitharaman on 5th July, 2019 in Parliament, New Delhi.

BUDGET AT A GLANCE -

Finance minister Nirmala Sitharaman's first budget was incremental, rather than radical, providing no fiscal boost to accelerate GDP growth to the 8% target for Modi government 2.0. It was protectionist and inward-looking, seeking to reduce import dependence rather than increasing exports. The incentives to elevate the economy to $ 5 Trillion level were not considered adequate. The Sensex and Nifty crashed during the week following the budget.

The interim budget already had dramatic features like the PM-KISAN scheme, which provided Rs.6,000 annually to small and marginal farmers. It had also waived income tax for individuals earning up to Rs.5 lakh per annum. So this budget was more a supplementary than a full budget. However, with the help of Rs.90,000 crore of excess capital to be transferred from the Reserve Bank of India, plus higher cesses on petrol and diesel, the fiscal deficit came down marginally to 3.3% of GDP.

- **Consumers :**

  Petrol and diesel costlier by Rs.2 per litre on higher duties.
  Gold and silver dearer as customs duty rises to 12.5% from 10%.
  Buying electric vehicles on loan to fetch up to Rs.2.5 lakh tax benefit.

- **Investors :**

  Share supply to rise sharply with higher public holding rule.
  New tax to discourage share buybacks by companies.
  Investments in Central Public Sector Enterprises (CPSEs) Exchange Trade Funds (ETFs) get attractive with 80C benefit.

- **Taxpayers :**

  Higher surcharge on the super rich; 39% tax for Rs.2-5 cr., 42.7% for over Rs.5 cr.
  Rs.1.5 lakh extra interest rebate on loans for affordable housing.
  Companies with turnover up to Rs.400 cr to pay 25% tax; 99.3% Companies covered.

- **Economy :**

  Big push for make in India by increasing string of import duties.
  FDI and FPI relaxations send strong signal to investors.
  Infra boost via private investment and more financing options.

- **Startups :**

  Angel tax relief for startups that submit all declarations.
  Wider category of VCs, PEs and others eligible for tax benefits.
  Boost for digital payments as charges abolished for buyers.

PROGRESS CARD -

- Pradhan Mantri Karmayogi Mandhan Scheme - unorganised informal sector. Rs.3000 p.m. pension, 30 lakh people joined.
- Ujala Yojana - 35 crore LED bulbs distributed, 18300 crore savings annually.

- By 2022, every single rural family will have electricity and clean cooking facility.
- 1.5 crore rural homes completed, 1.95 cr rural homes to be provided.
- Roads - 135 km per day built, 1,25000 kms to be upgraded.
- Adequate water availability, Jal Shakti Mantralaya's - **HAR GHAR JAL** Scheme to provide drinking water to every household by 2024, under the Jal Jeevan Mission.
- Direct taxes - revenue increased by 78% to 6.38 lakh crore, from 11.33 lakh crore in the previous year 2018.
- Infrastructure - Industrial corridors, Dedicated freight corridors. Transportation - Udaan - 657 km of Metro operational.

DETAILS - NUTS AND BOLTS -

1. **CONSUMERS -**

   - **Tax deduction of Rs.1.5 lakh allowed on interest paid for loans taken to purchase electric vehicles, govt asks GST Council to reduce tax from 12% to 5%**.

     Electric vehicles are set to become much more affordable, with the government planning to cut tax on such vehicles and extend income-tax rebates to people taking loans to buy battery-powered bikes, scooters, cars and three-wheelers. Finance minister has proposed I-T deduction of up to Rs.1.5 lakh for interest paid on loans for buying EVs.

     According to an ETIG analysis, on a loan of Rs.10 lakh for an EV with a five-year tenure, the buyer will be paying an interest of Rs.1.2 lakh a year at prevailing rates. This will lead to income-tax savings of up to Rs.36,000 in the first year for an individual. The government has also urged the GST Council to reduce the tax rate on EVs to 5% from 12%. Centre raised customs duty on built-up units of buses and trucks to 30% from 25% to primarily curb Chinese import.

   - **Increase in fuel prices to pinch consumer :**

     Petrol and diesel prices were set to rise Rs.2 a litre after a duty hike by the government that chose to shore up revenue from oil with no election in sight for months and little fears of crude oil flaring anytime soon. The government can gain Rs.26,000 crore in revenue in a year from this hike. Domestic prices of petrol and diesel have risen merely Rs.1.67 and Rs.1.86 a litre, respectively, since January 1.

   - **Gold, Silver to Get Costlier as Import Duty Raised :**
     Gold and silver are set to become dearer following the increase in import duty on precious metals to 12.5% from 10% announced. Consumers will now have to pay 15.5% total tax on gold, including 3% GST. FM also announced an increase in duty on silver dore (having silver content not exceeding 95%) to 11.85% from 9.35%.

   - **Local Sourcing Norms for Single-Brand Retail Eased :**
     High-tech companies such as Apple and Rolex may finally open their own retail stores in India as the government looks to ease local sourcing rules for foreign investment in single brand retail.

   - With 5% duty, imported books to become dearer.

   - Some ACs, television parts to cost more.

2. **MARKETS -**

- **Capital Gains Tax :**

  Lower Capital Gains Tax on Fund of Funds :

  To meet its divestment targets, the government wants greater participation from retail investors. For this, the government would lower short-term and long-term capital gains taxes on a Fund of Fund (FoF) set up for disinvestments in public sector companies.

- **The government has allowed foreign portfolio investors to subscribe to listed debt securities issued by REITs and InvITs. :**

  The move will help in providing a fund raising avenue especially in the wake of the tight domestic liquidity scenario. Further, more companies in the infrastructure and real estate sectors which have been looking to divest assets through REITs and InvITs will be encouraged as the development is in consonance with recent policy changes for these trusts aimed towards easing of norms and widening the access of these vehicles to investors.

- **Investment in CPSE ETFs to Get Tax Deduction :**

  Tax benefit likely to act as a good push for retail investors to be part of the disinvestment process. Investors putting money in exchange traded funds (ETFs) that bet on public sector companies will get tax benefits like that of tax-saving equity mutual schemes. Under Equity Linked Savings Schemes, or ELSS, investments of up to Rs.1.5 lakh every year are tax exempt.

- **SUUTI - FM Proposes Extension of Tax Exemption :**

  The finance minister has proposed to extend tax exemption available to the Special Undertaking of the Unit Trust of India (SUUTI) for two more years, till March 2021. SUUTI's mandate is to liquidate government liabilities on account of the collapse of Unit Trust of India (UTI) in early-2000. This specially created entity has been exempt from paying taxes on gains or profits derived by selling securities - right from February 2003 onwards. SUUTI holds a considerable number of shares of Axis Bank, ITC and L&T.

- **Bond Market :**

  AA-rated Bonds Allowed to be Used as Collateral. The government will work with the RBI and Sebi to enable stock exchanges to accept AA-rated bonds as collateral. The move is aimed at giving more flexibility to institutional investors and deepen the corporate bond market.

- **Insurance Intermediaries :**

  100% FDI allowed In order to boost foreign investments. 100% FDI will be permitted for insurance intermediaries. The move will further open up the Indian economy and allow more foreign investment.

- **SOP For NRIs :**

  Lower Tax Outgo - for investments in capital markets, the NRI-Portfolio Investment Scheme route has been merged with the Foreign Portfolio Investment route. The move will reduce the tax outgo on non-resident Indians. Currently, they are subject to tax deduction at source.

- **The International Financial Services Centres are in focus :**

  The bouquet of tax incentives could be just the trigger that puts the International Financial Services Centre on the global map and draws foreign investors and NRIs get another reason to invest in their home country. The finance minister has given a further boost to the International Financial Services Centre (IFSC) by proposing to exempt capital gains tax on equities traded on stock exchanges in the enclave, and to double the tax holiday for businesses operating out of there. The budget also proposed to widen the types of securities traded on IFSC stock exchanges that would be eligible for exemptions on capital gains tax.

  So far, capital gains exemption was limited to derivatives and certain notified debt. It has now been proposed to extend the exemption to all securities including equities, exchange-traded funds, alternative investment funds and mutual funds. This will provide complete clarity to foreign investors that no capital gains tax will be applicable on any product traded on IFSC stock exchanges. The **government has proposed a 10-year tax holiday on 100% of the profit for business units in the IFSC. At present, full tax deduction is allowed for five years and 50% for another five. The units can claim the tax holiday for any 10 consecutive years out of 15 years from the start of the business, the budget proposed.**

  India's first IFSC has been set up at Gujarat International Finance Tec-City (GIFT-City) in Gandhinagar, Gujarat, to rival international financial centres in Dubai and Singapore.

- **Tax on Buybacks Levels Playing Field for Cos, Investors :**

  The central government has proposed to introduce 20% tax on buybacks by listed companies. Until now, such provisions were applicable only to unlisted companies. The measure has been introduced by the government to curb the misuse of the buyback route by listed entities to avoid taxes.

  In the past few years, corporates have been using buybacks to return money to shareholders instead of dividends since dividends attracted distribution tax. With the introduction of the buyback tax, this tax arbitrage will end, said experts.

- **Options Buyers Get STT Relief, Trading a Lift :**

  In a major relief to options buyers, the budget has proposed that **securities transaction tax (STT) be calculated on the difference between the strike price and settlement price instead of the value of a contract.**
  Analysts believe this is beneficial for options buyers, although it might affect 'In the Money' options sellers. But overall, the move would boost volumes and participation in the options segment.

- **NBFCs :**

  The government has acknowledged the crucial role of NBFCs in sustaining consumption demand. To enable public issuances of debt by NBFCs, the requirement to maintain a Debenture Redemption Reserve, as required by RBI, has been done away with. However, the mandatory special reserve as required by RBI has to be maintained. **Housing finance companies (part of NBFCs) would henceforth be regulated by the RBI which would ensure better regulation and level playing field. Post budget, the RBI has announced Additional Liquidity Facility to banks for purchase of**

assets from and/or on-lending to NBFCs/ HFCs thus, facilitating credit flow to better rated NBFCs.

- **NRIs Can Now Invest Via the FPI Route :**

  Govt raises FPI holding limits, eases KYC norms to attract more foreign funds. The budget has proposed several measures to boost overseas fund flows. Merger of the non-resident Indian (NRI) and foreign portfolio investor (FPI) routes of investment, increasing statutory FPI investment limits, and simplification of documentation processes are among the key budget steps. These measures would provide a more conducive regulatory environment to FPIs, especially NRIs. Foreign investors have rightly been recognised as a key source of capital for the Indian economy and an attempt to provide harmonised and hassle-free investment experience has been made.

  C**urrently, NRIs invest in Indian stock markets through portfolio investment schemes (PIS), which are governed by the Reserve Bank of India (RBI). The scheme comes with several restrictions and NRIs aren't often keen on using the route.** Assets under custody of investors using the NRI route are only around Rs.3,000 crore, Sebi data showed.

  NRI investments currently are subject to tax deduction at source (TDS). If NRIs are allowed to come through the FPI route, there will be no TDS applicable. Offshore funds will be able to sell their India investment products to NRIs without any major restrictions.

  FPIs are set to get deeper access into the Indian markets as the government has also proposed to increase FPI limits in listed companies. Currently, there is a cap of 24% on FPI investments in a company. This cap can be increased up to the sectoral limit by the company through a board resolution. Under the new rules, the FPI limit in a company would be automatically set to the maximum permissible limit for the sector.

  For instance, insurance companies have an FPI sectoral cap of 49%. Until now, FPIs could automatically invest up to 25% in insurers and could buy up to 49% if the company passed a board resolution. Going forward, FPIs will be able to buy up to 49% automatically. The budget has also proposed to simplify KYC norms for FPIs.

3. **BUSINESS-TAX -**

   Corporate tax -

- **Corporate tax rate cut for mid-size domestic companies and more tariff protection for domestic firms will boost the Make in India story, but the biggest companies will have to wait longer for a lighter burden.**

  The tax relief for companies is confined to small and mid-tier businesses, with the minister choosing to lower the corporate tax rate to 25% from 30% for enterprises with a turnover of up to Rs.400 crore.

  This is a forward and backward budget. Personal taxes going as high as up to 50% takes us back to bad old socialist days, but an increase in the turnover threshold for lower corporate tax rate is welcome.

For large companies, India will remain less competitive as the total effective tax rate, including the dividend distribution tax, is as high as 48.31%. In comparison, China has a 25% rate, with a 10 to 20% rate for small scale enterprises, while US offers 21% rate. Singapore is even lower at 17%.

The government defended move, saying this will cover 99.3% of companies. From a numerical perspective, this is significant - the cut is targeted towards medium enterprises. **The philosophy seems to be common in personal income tax and corporate tax. Bigger companies will need to contribute more just as the rich have to pay more tax.**

- **Change in Duties to Boost Make in India :**

  The budget has proposed a significant rejig in basic customs duties to encourage manufacturing in the country. This involves raising customs duties on a number of products, withdrawing exemption from some and lowering rates for others to encourage value addition.

  The aim is to emerge as an attractive investment destination for companies looking to diversify manufacturing operations from China. The move also intends to give some protection to domestic producers. **Make in India is a cherished goal.**

  Indirect tax proposals are based on promoting the key themes around Make in India, environmental concern, technology-led tax administration and ease of doing business.

- **Exports Booster :**

  Taxbreak on Capital Spending in Mega Plants. A tax-break on capital spending in mega manufacturing plants is meant to raise the share of manufacturing as a proportion of GDP and help boost exports. The incentive will be an investment-linked deduction in sunrise and advanced technology areas. Investors will be enthused only when enabling infrastructure like 24/7 power supply is in place for the tax break to work and spur investment.

- **Pro-Resolution :**

  Sweetener for buyers of Companies at bankruptcy court. Good news for prospective buyers of companies that the Govt. has taken to the bankruptcy court, **these companies will not be denied carry forward of business loss when there is a change in shareholding as well as the board of directors.** In the normal course, a company loses the benefit of carry forward losses when more than 50% of the shareholders change. Distressed companies will also get a breather on minimum alternate tax. It will help turnaround of companies.

- **GST Reforms :**

  Changes in the Central Goods and Services Tax to ease compliance for traders - **This includes empowering the National Anti-profiteering Authority to impose penalty equivalent to 10% of the profiteered amount. This will compel industry to pass on tax cuts to consumers who will gain from lower retail prices**. A National Appellate Authority for Advance Ruling will help resolve disputes at an early stage.

- **Customs Crackdown to Curb Misuse of Concessions :**

  A crackdown against bogus entities that indulge in unfair practices to get export concessions will curb misuse. Also, **misuse of duty free-scrips and drawback facility involving more than Rs.50 lakh will be a cognizable and non-bailable offence**. Customs officers will have powers to arrest a person who commits an offence outside India or Indian Customs waters, to make certain offences as cognizable and nonbailable and provisionally attach bank accounts.

- **Amnesty Scheme to Resolve Legacy Tax Issues :**

  The government has unveiled an **amnesty scheme to resolve excise and service tax disputes pertaining to the period before the introduction of the goods and services tax** to clear the backlog of cases and improve the ease of doing business. **Even two years after the indirect tax regime was replaced by GST, the litigation doesn't seem to die down and there is a huge pendency.**

- **Deemed Gift Tax Waiver for Distress Asset Buyers :**

  An exemption from deemed gift tax will be given to buyers of some categories of distressed companies that will be notified by the government. The levy treats investment in companies at a price below its fair market value as a deemed gift and taxes the difference at 30% in the hands of the buyer.

- **Recast-Friendly 'Demerger' Definition Simplified :**

  The definition of 'demerger' has been simplified to allow the resulting company to record the value of the property and liabilities at a value different from the book value in compliance with the Indian Accounting Standards. This will make restructuring easier and do away with tax uncertainty.

4. **TAXATION -**

- **The budget increases the tax surcharge on the super rich and makes filing tax returns compulsory if you deposit more than Rs.1 crore in a current bank account, use electricity worth Rs.1 lakh or spend Rs.2 lakh on foreign travel in a year.**

  Homebuyers will be able to avail an additional Rs.1.5 lakh deduction on home loan interest for properties worth up to Rs.45 lakh. This is over and above the existing deduction of up to Rs.2 lakh. Effectively, buyers of affordable housing can claim deduction of up to Rs.3.5 lakh. This extra deduction can only be claimed on loans sanctioned during the current financial year. Also, the individual must not own any residential property on the date of sanction of the loan.

  According to the FM, this deduction will translate into a benefit of around Rs.7 lakh for homebuyers over a loan tenure of 15 years. A 15-year home loan of up to Rs.35 lakh at an interest of 8.7% translates into an interest outgo of Rs.2.99 lakh in the first year. At 9% interest on a 15 year home loan, the interest payment in the first year works out to Rs.3.12 lakh. Effectively, most new homebuyers who have taken a loan in 2019, will not be able to claim the entire deduction of Rs.3.5 lakh.

- Black money continues to be a bee in the government's bonnet. **It will change the law to go after Indians who have settled abroad to get the NRI tag and escape tax on hidden income.** And, in a quasi-amnesty scheme, individuals and companies who had declared cash hoards after Demonetisation, will get a second chance to come clean. NRIs will be under glare for their undisclosed properties and bank accounts created during the years when they were 'residents'. The harsh Black Money Act - which can go back as early as 1961 and till now covered only 'residents' - will be amended to include 'non residents.' **The amendment will take effect retrospectively from 1 July 2015 when the law came into existence.**

Under the law, a person with hidden income or assets has to fork out 30% tax, 90% penalty, and even face prosecution.

- **Property :**

  TDS on deals, In addition to base price, other charges like club membership fee, car parking fee, etc. will also be considered while calculating TDS now.

- **PAN & AADHAAR :**

  Interchangeable Tax filers are now allowed to quote either PAN or Aadhaar number while filing tax returns.

- **Returns :**

  Compulsory filing reintroduced, provision for compulsory filing of returns introduced again. You have to do it if you have deposited Rs.1 crore or more in bank accounts, incurred expenditure of more than Rs.2 lakh on foreign travel, have electricity bills above Rs.1 lakh, etc.

- **Deduction :**

  Deduction of TDS by individuals or HUF, Individuals or HUFs have to deduct TDS at 5% if the annual payment made to contractor or professional exceeds Rs.50 lakh.

- **Gifting :**

  To foreign residents, gifting rule rationalised by bringing tax parity between gifts made to residents and non-residents.

- **CPSE :**

  CPSE ETF to get ELSS benefits, the government wants to bring CPSE ETFs under the ambit of equity linked saving schemes (ELSS). T**his will make investments in CPSE ETFs eligible for tax deduction under Section 80C.**

- **Assessment :**

  No personal interaction, faceless assessment will be launched to bring down personal interaction between department and taxpayer. Cases for scrutiny shall be allocated by a Central Cell, without disclosing details.

5. **BANKING & FINANCE -**

   - **PSU Banks Get Fuel to Grow and Pump Up the Economy :**

     The Rs.70,000-crore capital infusion will allow banks to come out of prompt corrective action, step up lending to SMEs and also provide for bad loans.

     This will allow them to provide for bad loans, and promised governance reforms that have been on the backburner since the PJ Nayak Committee recommended them in 2014.

     Reforms will also be undertaken to strengthen governance in public sector banks.

The amount proposed to be invested in state banks is below the Rs.1.06 lakh crore injected in the previous FY 2018-19 and Rs.88,139 crore injected in FY2017-18. The government has infused Rs.2.5 lakh crore in state-run banks since FY15, but for many lenders, the capital ratios remain alarmingly low. All of it will again come from recapitalisation bonds, so it won't add to the government debt.

Financial gains from cleaning of the banking system are now amply visible, **NPAs of commercial banks have reduced by over Rs.1 lakh crore over the last year 2018; record recovery of over Rs.4 lakh crore due to Insolvency and Bankruptcy Code (IBC) and other measures have been effected over the last four years.**

This budget focuses on improving State-run Banks' technology backbone. These banks will leverage technology to offer online personal loans and doorstep banking, and enable customers of one state-run lender to access services across all state-run banks, the finance minister said. In addition, the government will initiate steps to empower account holders to remedy the current situation where they do not have control over cash deposits by others into their accounts.

- **NPA-hit banks and crisis-ridden NBFCs get special attention with substantial liquidity support;** government to borrow in foreign currency in overseas markets, experts say this may lead to greater scrutiny of fiscal numbers.

- **<u>NBFCs</u> :**

The budget threw non-banking finance companies (NBFC) a Rs.1 lakh crore lifeline with a promise to stand part guarantee on loans purchased by state-run banks for six months.

Banks can borrow from the RBI by pledging their excess government bond holdings to fund the purchase of NBFC assets. The RBI has advanced a new mandatory government bond holding rule for banks to buy such assets, which could potentially release Rs.1.3 lakh crore.

The government guaranteed to bear the first loss of up to 10% of the assets, but that may fall short of what the industry has been demanding in terms of support.

The government will do away with the debenture redemption reserve (DRR) requirement for non-banking finance companies (NBFCs) raising public funds and help reduce their overall costs. Currently, NBFCs raising public funds have to set aside 25% of the proceeds as DRR. This would bring public issuances of NBFC bonds on a par with private placements.

NBFCs have been demanding a special liquidity window ever since credit markets tightened after Infrastructure Leasing & Financial Services imploded September 2018. With both mutual funds and banks pulling back on lending due to fear of defaults, NBFCs' funding cost soared and liquidity dried up.

NBFCs are playing an extremely important role in sustaining consumption demand as well as capital formation in small and medium industrial segment.

NBFCs that are fundamentally sound should continue to get funding from banks and mutual funds without being unduly risk-averse.

The government has also created a level playing field for NBFCs. Just like banks, they need not pay tax on interest accrued on bad loans.

Furthermore, the hands of RBI are being strengthened in regulating NBFCs, where it would have the power to act against the board of directors if it believes that the management is weak. But state-owned NBFCs would be beyond the RBI's pale.

The government has decided to allow all NBFCs to directly participate on the TReDS platform. As per the Factoring Regulation Act, only factoring firms were allowed to carry out this business, restricting the business to less than half a dozen.

- **Panel to Study DFI Feasibility :**

  The Centre has now proposed to set up an expert committee to study the situation relating to long-term finance, and the experience with Development Financial Institutions (DFIs). **The committee will recommend the structure and required flow of funds through DFIs to help achieve the federal objective of investing Rs.100 lakh crore in infra over the next five years.**

- **India to Sell Sovereign Bonds Abroad for First Time :**

  India will sell sovereign bonds overseas for the first time by leveraging its relatively lower external debt exposure, likely freeing up local cash pools that could be used to help achieve New Delhi's social objectives and financial growth. **The government would start raising a part of its gross borrowings in the external markets in external currencies. This will also have a beneficial impact on the demand situation for government securities in the domestic market. At less than 5%, India's sovereign external debt to GDP ratio is among the lowest globally.**

  Sovereign bond issuances (overseas) need to be done in a planned manner. The government should do it consistently for five years because then it will help create secondary market liquidity around the world.

- **RBI to oversee Housing Finance Companies :**

  India would transfer the supervisory powers on its housing finance companies to Mint Street from National Housing Bank (NHB), ending the regulatory arbitrage that local mortgage lenders have been enjoying to date.

  NHB, besides being the refinancer and lender, is also the regulator of the Housing Finance Sector. This gives a somewhat conflicting and difficult mandate to NHB. The move is aimed at improving supervision of Housing Finance Companies (HFCs). **There are three kinds of lenders - NBFCs, banks and HFCs**. NBFCs and banks were already being regulated by the RBI. Anyway, NHB used to follow the RBI in issuing regulations. This move will bring HFCs also under the central bank and make implementation of regulations simpler.

6. **STARTUPS -**

- Investments in startups from a more diverse set of funds will now be exempted from the dreaded angel tax, an issue that has plagued the country's new economy for nearly a decade.

  The so-called angel tax refers to Section 56 (2) (viib) of the Income Tax Act, under

which the difference between the price at which an investor buys shares of a startup and the fair market value of such shares, was deemed as taxable income.

- **Making Space :**

  The angel tax exemption - which until now had been restricted to Category - I funds including impact funds, venture capital funds and Infrastructure funds - will go a long way in helping newer asset classes invest in startups.

- **Standup India :**

  Rs.1 crore for Entrepreneurs to Stand Up. **The Stand-up India scheme will be extended up to 2025. Funds worth Rs.10 lakh to Rs.1 crore will be given to entrepreneurs, who can use it to buy items ranging from scavenging machines to robots.** The scheme has benefited thousands of women and SC/ST entrepreneurs. Banks have been asked to provide loans to at least one woman entrepreneur per branch to set up a greenfield enterprise.

- **Bharatnet :**

  250,000 Panchayats to Log in by 2020. The FM has set a target of connecting around 250,000 village panchayats to the internet by March 2020, making it the world's largest rural broadband project with an aim to bridging the rural-urban digital divide. Resources from the Universal Service Obligation Fund will be used to connect these panchayats in partnership with private players.

- **Tech Incubators :**

  The budget aims to promote technology in rural industries with a proposal to set up 80 livelihood and 20 technology business incubators in fiscal year 2020. I**t will train over 75,000 entrepreneurs with skills required for the agro-rural industry. Most villagers depend on agriculture and traditional skill-based industries. The effort is to improve productivity and generate more jobs.**

- **National Research Body :**

  A National Research Foundation (NRF) will promote research and identify projects in national priority areas. Research funds with different ministries will be distributed through NRF. Globally, countries like the US have set up similar frameworks to promote scientific research like the National Science Foundation.

- **Taking Advantage of US-China Rift :**

  Govt eyes mega sops for global firms in sunrise sectors such as semiconductors and solar cells which are feeling the heat of the trade war with the US.
  India plans to offer incentives to lure global semiconductor and computer makers to set up large factories in the country, in the backdrop of companies such as HP and Dell looking to shift some production from China due to its trade war with the US.

  The government is preparing itself for mega investments in the sunrise and advanced technology areas such as semiconductors, solar cells and charging infrastructure, lithium batteries and computers.

  Global manufacturers have struggled to rethink supply lines as the acrimonious trade dispute between the US, where most are based, and China made their dependence on the Asian country a source of concern.

- **Harnessing Demographic Dividend :**

Increasing access to capital and skill building, easing tax norms for startups, encouraging knowledge-sharing and supporting MSMEs will help India harness its demographic dividend - a young workforce.

This budget spells a lot of firsts and presents a strong roadmap for the country to trek towards the vision of a $5 trillion economy by 2024-25. **The Economic Survey broke tradition and focused on behavioural economics and blue-sky thinking to illustrate how demand, jobs, exports and productivity are interlinked and that an investment-driven virtuous cycle is the key to sustain growth.**

It was also heartening to note a conscious move from women-centric to women-led development programmes and outlays in SHG, MSME, MUDRA, StandUp & Startup India initiatives that will encourage women entrepreneurship.

7. **ECONOMY -**

- **Revenue and Expenditure :**

Total central government expenditure in 2018-19 touched 13.04% of GDP, as per the revised estimates. At 13.4%, total expenditure growth is budgeted to be lower than the 14.7 % registered last fiscal. But then, that was an election year. The size of the Centre's expenditure will reach 13.2% of GDP in 2019-20. The government of France spends 57% of GDP, by contrast. Can India really afford any smaller government than it actually has ? Including expenditure by all the state governments combined, general government spending in India is only about 27% of GDP.

Capital expenditure is scheduled to grow a meagre 6.9%, after it grew over 20% last fiscal. **As a percentage of GDP, capital expenditure is budgeted to actually shrink: from 1.68% to 1.60%.**

The government expects total tax collections by the Centre (including the share that would devolve to the states) to shrink a little to 11.6% of GDP from 11.9% of GDP last fiscal.

The fiscal deficit is expected to shrink ever so little, from 3.4% of GDP to 3.3% of GDP. But the composition of the government's spending is slated to suffer some deterioration, besides the dip in capital expenditure. Interest payments as a proportion of GDP are expected to climb a tad from 3.12% to 3.13%.

25K-Cr Mop-up From Customs, Excise Duty Hike - An increase in customs duty and excise duty will bring an additional Rs.25,000 cr to the exchequer. The Government raised customs duty on a host of products while raising cess on petrol and diesel by Rs.1 per litre. The **surcharge on the superrich** would help garner **additional Rs.12,000 cr** this fiscal on the direct tax side while **revenue loss due to extension of 25% corporate tax rate to firms with turnover of up to Rs.400 cr would be around Rs.4,000 cr.**

- **Disinvestment :**

  Eyeing big-ticket strategic sales, the government announced a major shift in the budget in its disinvestment policy which will allow it to reduce its stake to less than 51% in state-run firms.

  Strategic disinvestment of select Central Public Sector Enterprises (CPSEs) would remain a priority and the government would offer more CPSEs for strategic participation by the private sector. "In view of current macroeconomic parameters, government would not only reinitiate the process of strategic disinvestment of Air India, but would offer more CPSEs for strategic participation by the private sector. The target of Rs.1.05 lakh crore is a realistic goal.

- **Revenue from RBI/Banks/Telecom :**

  The government has estimated about Rs.90,000 crore as dividend from the Reserve Bank of India. The dividend will come after the annual meeting. As per the budget documents, **the government expects to raise Rs.1.06 lakh crore as dividends from RBI, banks and other financial institutions**. In 2018-19 it raised Rs.74,140 crore, of which the central bank paid Rs.68,000 crore to the government including Rs.28,000 crore as interim dividend.

  The government further expects a 28% increase in non-auction revenue at Rs.50,519.8 crore in the fiscal year 2019-20 from the telecom sector against the revenue of **Rs.39,245 crore** earned for the **current fiscal year ended March 31,** according to budget documents.

- **NSIL - New Commercial Arm of Dept of Space :**

  A public sector enterprise called New Space India Limited (NSIL) will be incorporated as a new commercial arm of the Department of Space. **The idea is to tap the benefits of the research & development carried out by ISRO like commercialisation of products like launch vehicles**, transfer to technologies and marketing of space products.

- **Skill India - Preparing Youth for Jobs Overseas :**

  Focus on imparting new-age skills in areas like artificial intelligence, Internet of Things, big data, 3-D printing, virtual reality and robotics to equip youth to take up high-paying jobs overseas. Language training will also be given to help youth get more jobs as the aim is to make India the 'skill capital' of the world.

- **Indigenous Payment Systems :**

  The National Common Mobility Card, India's first indigenously developed payment ecosystem for transport, will enable people to pay multiple kinds of transport charges, including metro services and toll tax, across India.

- **Relaxation in FDI :**

  The government plans to relax foreign direct investment (FDI) rules in aviation, insurance, singlebrand retail and media animation, visual effects, Gaming and Comics (AVGC). Relaxation of FDI regulations in aviation is likely to make it easier for the government to find buyers for state-run Air India and the bankrupt private airline, Jet Airways. Easier sourcing rules for single-brand retail will help companies like Apple and luxury brands.

8. **AGRICULTURE & SOCIAL -**

- **Govt wants farmers to join hands to bargain for better input and output prices from a position of strength; also wants a shift away from extensive use of chemicals that degrade soil and pollute the environment.**

  The government plans to form 10,000 farmer producer organisations (FPOs) in the next five years. This is expected to help small and marginal cultivators team up to get lower rates for inputs and sell produce at higher rates. FPOs will ensure economies (It is anticipated that) of scale. It will help create an institutional structure to aggregate the farmers. It is hoped that the government will also try to create an entire ecosystem for the development of the FPOs.

  Indian farms are highly fragmented, making it difficult for farmers to adopt modern practices and technology. The small and marginal land holding area increased to 47.4% in 2015-16 from 38.9% in 2000-01, while that of large holdings decreased to 20% from 37.2% in the same period.

  The existing FPOs are not able to grow as they cannot raise capital. The government could have allowed investment by venture capital for private equity funds in this sector. As a result, a large number of FPOs started by various government agencies have remained on paper.

  Currently, 3,500 FPOs have been registered and another 3,000 are under promotion.

- **Agri Ministry Gets 78% More :**

  The government has raised the budget allocation for agriculture ministry by over 78% to **Rs.1.39 lakh crore for the current fiscal, of which Rs.75,000 crore will be for the flagship scheme PM KISAN.** It was Rs.77,752 crore in the revised estimate for 2018-19.

- **Support for Honey, Khadi Clusters :**

  The government will support bamboo, honey and khadi clusters to create jobs. **Under the Scheme of Fund for Upgradation and Regeneration of Traditional Industries (Sfurti), 100 new clusters will be set up in FY20, which should enable 50,000 artisans to join the economic value chain.**

- **Farm Infrastructure :**

  The government will promote big investment in agricultural infrastructure and give the private sector a role in it. It will support entrepreneurs in driving value addition to farmers' produce, including bamboo and timber from the hedges and for generating renewable energy, with the FM saying that **annadata can also be urjadata.**

- **Ease of doing business - Centre to Work with States to Push e-NAM :**

  Farmers will gain from the government drive for 'ease of doing business'. **The Centre will work with states to help farmers benefit from the nationwide market for agricultural produce, e-NAM, which aims to help them get a better price for their output.** The government also does not want any local restrictions on farmers.

- **All Support for Dairies, Oilseeds :**

  Dairies and oilseeds are high on agenda. The government will support dairying through cooperatives **by creating infrastructure** for cattle feed manufacturing, milk procurement, processing and marketing.

- **Import Duty to Rise on Cashews :**

  Cashew processors and traders can finally heave a sigh of relief as the budget has proposed to **raise the import duty of cashew kernels from the current 45% to 70%** for broken as well as whole forms. Rising cashew imports had hit domestic sales in India, which is the largest consumer of the nut.

- **Cost Control :**

  The government plans to promote zero-budget farming, an environment-friendly and remunerative alternative to the prevalent chemical-heavy and costly agricultural practices that often degrade the soil, contaminate the water and leave pesticide residues in grains. The system uses manures and organic material to improve productivity at a fraction of the cost of chemical fertilisers and pesticides.

  In a few states, farmers are already being trained in this practice. Steps such as this can help in doubling our farmers' income in time for our 75th year of Independence.

  The sustainable farming system, commonly known as Zero Budget Natural Farming (ZBNF), was introduced by Padmashree awardee Subhash Palekar, who has been invited by Chhattisgarh, Andhra Pradesh, Himachal Pradesh, Kerala and Karnataka to train farmers. The system uses manures and organic material to improve productivity at a fraction of the cost of chemical fertilisers, pesticides.

- **Nari to Narayani :**

  Greater women participation in focus through Rural Partnership Committee. Parliament strength of women MPs grown to 78. Record women turnout in the recent elections, women entrepreneurship encouraged via interest subvention to every woman SHG member who is eligible for the Rs.1 lakh loan.

- **Education :**

  Single Regulator for Higher Education Soon :

  The government plans to overhaul the education system with a new policy that promises better governance and focus on research and innovation to make it among the best in the world.

  The New National Education Policy will make major changes in both school and higher education, with emphasis on building convergence, consolidation and overhaul of regulatory structures.

  The most significant move is the promise of a single higher education regulator - Higher Education Commission of India - to replace multiple regulatory authorities such as University Grants Commission and All India Council for Technical Education.

9. **INFRASTRUCTURE & RAILWAYS -**

- **Railways :**

  Calls for more Public Private Partnerships (PPPs) in Railways infrastructure to steer closer to its Rs.50 lakh cr investment requirement by 2030. Private participation will range from laying tracks to delivering freight services.

The private sector will be involved in speeding up laying railway tracks, rolling stock manufacturing and delivering passenger freight services to increase efficiency of the Railways and help it meet its colossal long-term requirement of Rs.50 lakh crore. From asset monetisation and inviting global and long-term investors to the country, to floating the idea of a development financial institution for infrastructure, the role of the private sector was made evident in the budget announcement in 2019.

The required investment of Rs.50 lakh crore between 2018 and 2030 in Indian Railways cannot be met by public sector expenditure alone. Given that **capital expenditure outlay of the Railways is Rs.1.5-1.6 lakh crore per annum**, completing even all sanctioned projects would take decades.

It is therefore proposed to use public-private partnership (PPP) to unleash faster development and completion of tracks, rolling stock manufacturing and delivery of passenger freight services. The Railways will be encouraged to invest more in suburban networks through special purpose vehicle structures such as the Rapid Regional Transport System proposed on the Delhi-Meerut route.

Other Infrastructure :

- **Aviation :**

  Policy Change Likely in Aviation MRO Sector - Policies will be formulated to encourage growth of the maintenance, repair and overhaul (MRO) business in the aviation sector. The MRO sector has suffered losses because of high taxes, which **prompts airlines to turn to Singapore, Sri Lanka and Dubai to get their aircraft serviced. The MRO industry says they can turn India from an importer of MRO to a net exporter and create over 100,000 direct jobs and revenues exceeding Rs.35,000 crore in five years.**

- **Connecting India :**

  Gas, Water Grids and Regional Airports to get Blueprint - The government will make a blueprint to develop gas grids, water grids and regional airports, an initiative with which the finance minister hopes to take connectivity infrastructure to the next level. It aims to build on the successful model of 'one nation, one grid' that has ensured power connectivity to states at affordable rates.

- **Debt Source :**

  AA Rated Bonds May Be Allowed As Collaterals - Measures to deepen the debt market will boost infrastructure financing. The government will work with the Reserve Bank of India and Securities and Exchange Board of India to enable stock exchanges to allow 'AA' rated bonds as collaterals. A Credit Guarantee Enhancement Corporation will be set up in 2019-20. An action plan to deepen the market for long-term bonds, including corporate bond repos, and credit default swaps with a focus on infrastructure will be put in place.

- **Public infrastructure and affordable housing :**

  Ministry, PSU Land to be Used to Build Public Infrastructure - The government will build large public infrastructure on land owned by central ministries and public sector companies. With the help of innovative instruments such as **joint**

development and concessions, public infrastructure and affordable housing will be taken up without any hurdles or high cost of land acquisition.

Setting up nuclear plants and purchasing their fuel will become cheaper as the budget has proposed favourable changes in the duty structure. **Customs duty on uranium enriched in U-235 or its compounds, plutonium and its compounds, mixtures, etc. for generation of nuclear power will come down to zero, from the existing rate of 7.5%.** It is also proposed to remove duty on goods required for setting up nuclear power plants under project imports.

- **Power :**

The government plans major reforms in the power sector, including revival schemes for state distribution companies and fuel-starved power plants that depend on natural gas. A package of structural and tariff reforms is also expected.

This is good news for the power sector, which has been dogged by acute financial stress because of fuel scarcity, delayed clearance and poor health of state distribution companies that are usually the monopoly buyers of electricity.

A scheme was announced to invite global companies through transparent competitive bidding to set up mega manufacturing plants in technology areas such as semi-conductor fabrication, solar photovoltaic cells, lithium storage batteries and solar electric charging infrastructure, and provide investment-linked exemptions under Section 35 AD of the Income Tax Act, and other indirect tax benefits.

A revival scheme for gas-based power plants and a tariff policy are in final stages of being drafted, after which they will be sent for Cabinet approval.

The government is examining performance of the Ujwal Discom Assurance Yojana (Uday) and it will be improved. **The Centre will work with state governments to remove barriers such as cross subsidy surcharges, undesirable duties on open electricity sale and captive generation for industrial and other bulk power consumers.**

The government will support private entrepreneurship to encourage farmers to produce energy from solar installations in fields. They can earn a minimum Rs.1 lakh annually from every acre.

Measures like one nation-one grid and creating green infrastructure along with affordable housing can transform lives.

Uday has faced criticism owing to rising debt and overdues of discoms. The gap between average cost of supply and revenue recovery reduced from 59 paise at the beginning of Uday to 17 paise in FY18. However, the revenue gap widened in nine months of FY19 to 35 paise, from 26 paise in the year ago period, on higher coal and freight charges, lesser subsidy disbursement by states and ineffective tariff hikes by regulators.

Accumulated debt of distribution companies is Rs.3.52 lakh crore, old debt is Rs.2.02 lakh crore and fresh borrowings are at Rs.1.5 lakh crore. **Dues to generators have touched Rs.41,000 crore.**

WRAP-UP -

- The budget needs to be viewed with reference to the interim budget presented by Mr Piyush Goel, before elections and the special announcements made therein, such as annual grant to the farmers. **While the details of revenue and expenditure break up will reveal the granular picture, this budget can be said to be a Five Year Road Map of the Modi 2 Govt. to reach the targeted level of GDP and the growth rate.**