

INDIAN UNION BUDGET 2009-10

The Republic of India which is the second largest democracy in the World, after the United States of America, has its General Lok Sabha elections in the summer of 2009. In an election year where the outgoing Government does not have a full term left, a full Budget with changes in legislations for meeting its social and revenue objectives is not presented but an Interim Budget which is a Vote on Account of its expenditure and earnings for the coming fiscal year is presented. However, considering the extreme pressures on the economy due to the fallout of the international financial meltdown most analysts expected a departure from the norm by providing a robust incentive package to industry.

The Interim Budget announced on the floor of the Parliament on February 16, 2009 by the Hon'ble Finance Minister, Mr. Pranab Mukherjee was significant for the complete absence of any changes in taxation. The Budget speech of the Hon'ble Minister read out like a veritable election campaign speech by sounding out the election bugle on the development plank of the United Progressive Alliance (UPA). The key features of the Interim Budget were laid down to impress the voters with the achievements of the past five years. At the same time indications were given as to what changes would be required to give

a boost to the economy as and when the new Government formulates the tax and expenditure policies for 2009-10. Budget allocation for areas like Defense was increased post the Mumbai terror attacks.

However, in the course of the budget discussions on the floor of the House, in a surprise move some further relief on the Indirect Tax front was granted to industry and the common man which is popularly being called '*Stimulus Package 3.0*'. The relief being on the indirect tax front, the effect is felt immediately since the manufacturers/ service providers would be passing on the benefit from the next day of the notification, i.e. 24th February 2009. The reduction in indirect taxes would help spur demand and keep the electorate happy at the cost of a spiraling deficit. The Government has to walk a tight rope balancing the inflation, weakening Rupee against Dollar, slowdown in growth and rising fiscal deficit. The latest statistics for the third quarter (Q3) ending December 2008 on the growth of the GDP at 5.3% is the slowest pace in over six years and is raising concerns over whether the governments estimate of 7.1% growth for 2008-09 is unduly optimistic. All in all, the Interim Budget presented fell short of market expectations which had hoped that some further governmental assistance would be introduced to cope with the four months of the next fiscal period, when the new Government is expected to introduce the new policies.

A. Taxation

- Income tax slab rates for individuals, firms, local bodies un-changed
- No change in the corporate income tax rates.
- No change in the rate of surcharge.
- Changes in Indirect tax field were introduced as follows:-
 - Rate of Service Tax applicable to all chargeable services reduced from 12.36% to 10.3% w.e.f. February 24, 2009
 - Central Value Added Tax (Cenvat) reduced by 2% on all products manufactured which were earlier assessable at 10% tariff value w.e.f. February 24, 2009. This tariff value of 10% covers items of daily use of consumers such as Color TV, refrigerator, washing Machine, Air conditioner, Furniture, shampoo/ toothpaste etc. and therefore will lead to an immediate reduction in the cost of consumers basket of daily needs.
 - In the case of cement, Cenvat cut to 8% or Rs. 230 per tonne whichever is higher, from earlier rate of 10% of Rs. 280 per tone whichever is higher w.e.f. February 24, 2009
 - The earlier rate cut introduced on 7th December 2008 in Cenvat rates on certain products such as edible oils, biscuit, cement, textiles, software, motor vehicles, toys etc. to continue beyond March 31, 2009.

B. Impact of Rate Cuts

- **Real Estate and Construction**

The rate cuts are likely to impact positively the real estate and construction industry which is going through a particularly bad time due to the shortage of liquidity caused by a reduction in availability of bank debt and Private equity funds to the sector post the financial meltdown. The cement sector has been the beneficiary of two rounds of duty cuts in a span of three months. The service tax reduction would positively impact the sector directly, thru a reduction on rate for renting services and indirectly thru the service tax reduction on goods transport agency.
- **Commercial Vehicles/ Trucks**

The steep fall in activities in the real estate and infrastructure segment had adversely impacted the Heavy Commercial vehicles and Light Commercial Vehicles sector. The rate was
- **Consumer Durables/ White Goods**

The electronic white goods players have been given relief after particularly suppressed sales figures during the festive season of Diwali, Christmas and New Year.

- **FMCG Sector**

This has been one sector which has beaten the downturn and has been doing well, however, in an election year relief has been given to avoid any adverse reactions.

- **Banking and Airlines**

The banking and airlines sector whom are major services based sector would benefit from the reduction in the service tax cut.

- **BPO Sector**

A clarification by way of a Notification issued simultaneously with the rate cut on the Export of Service Rules, 2005 brings cheer to the sector. Litigation had been going on since long on the issue of whether service tax should be levied on the services rendered by the BPO sector or whether they would be exempt as an exporter of services. The said notification puts the matter to rest and comes in as a relief to the LBO, Call Centre operations.

C. Budget Estimates for 2009-10

- Fiscal and revenue deficits are higher than the Fiscal Responsibility Budget Management (FRBM) Act targets
- Net tax revenue at Rs.5,00,096 crore, with revenue expenditure estimated at Rs.8,48,085 crore, the revenue deficit amounts to 4.0 per cent of GDP.
- Fiscal Deficit is estimated at Rs.3,32,835 crore which is 5.5 per cent of GDP.

D. Economic Stimulus

- The need for contra-cyclical policy through a substantial increase in expenditure in infrastructure development where there are large gaps and in rural development was felt by the Finance Minister, however, it was left to the next Government to take up the challenge
- Additional plan expenditure of anything from 0.5 per cent to 1.0 per cent of the GDP is required to gear up the systems

E. Other changes

- A comprehensive system of Unique Identity for the resident population of the country has been worked out under the unique Identification Authority of India
- Extension of the interest subvention of 2 percent on pre and post shipment credit for certain employment oriented sectors i.e. Textiles (including handloom & handicrafts), Carpets, Leather, Gem and Jewellery, Marine products and SMEs beyond March 31, 2009 till September 30, 2009