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STUDENTS' ECONOMIC FORUM

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To empower the student community...

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Theme 258

UNION BUDGET 2013-14 : PART II

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MAY 2013

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A well informed customer will make the policy makers as well as organisations which produce goods and services more responsive to the customer needs. This will also result in healthy competition among organisations and improve the quality of goods and services produced.

The "SIB Students' Economic Forum" is designed to kindle interest in economic affairs in the minds of our younger generation. We highlight one theme in every monthly meeting of the "Forum". This month we discuss the announcements on financial sector and tax proposals (Part 11) of Budget 2013-14.

What are the major announcements related to the banking industry?
The Finance Minister has announced an additional capital infusion of Rs.125.17 billion into 13 public sector banks before the end of March, 2013. The budget proposed a further amount of Rs.140 billion for capital infusion in 2013-14. The Government is aware that our public sector banks are well regulated and they have to meet the Basel III regulations in a phased manner from 2013 to 2018. All the scheduled commercial banks and RRBs are on core banking solution (CBS) and have introduced the electronic payment systems, both RTGS (Real Time Gross Settlement) and NEFT (National Electronic Fund Transfer). The budget proposes to bring all other banks including some cooperative banks on CBS and e- payment systems by 31.12.2013. All the public sector banks have assured that all their branches will have an ATM in place by 31.03.2014. The Finance Minister informed the Parliament that even though, women are at the head of many banks including two public sector banks, there is no bank that exclusively serves women. He has proposed a bank that lends mostly to women and women-run businesses, that supports women SHGs and women's livelihood, that employs predominantly women and that addresses gender related aspects of empowerment and financial inclusion. The bank will be India's first women bank in the public sector with an initial capital of Rs.10 billion to be approved and licensed by October 2013. The budget has proposed to provide Rs.60 billion to the Rural Housing Fund set up through National Housing Bank (NHB) to extend loans for rural housing. The budget will provide Rs.20 billion to the proposed "Urban Housing Fund" for urban housing under NHB, to mitigate the huge shortage of houses in urban areas.

What are the proposals for the Insurance sector?
The Finance Minister informed the house that he has finalised some proposals in consultation with IRDA (Insurance Regulatory Development Authority), to increase the penetration of insurance, both life and general, in the country. Insurance companies will be empowered to open branches in Tier II cities and below without prior approval of IRDA. All towns of India with a population of 10,000 or more will have an office of LIC and an office of at least one

public sector general insurance company by 31-03-2014. KYC of banks will be sufficient to acquire insurance policies & banks will be permitted to act as insurance brokers so that the entire work force of bank branches will be utilised to increase penetration. Banking correspondents will be allowed to sell micro- insurance products & group insurance products will now be offered to homogeneous groups such as SHGs, domestic workers' associations, anganwadi workers, teachers in schools, nurses in hospitals etc. Public sector general insurance companies will organise adalats to settle the huge number of motor third party claims pending before tribunals /courts to provide relief to the affected persons/families. The Rashtriya Swasthiya Bima Yojana, covering 34 million families below the poverty line, will now be extended to other categories such as rickshaw, auto-rickshaw and taxi drivers, sanitation workers, rag pickers and mine workers. A comprehensive and integrated social security package for the unorganised sector (both poor and vulnerable sections) will be set up including life-cum disability cover, health cover, maternity assistance and pension benefits by convergence of the present schemes under different ministries and departments. The Finance Minister hopes to pass both the Insurance Laws (Amendment) bill and the PFRDA bill in this session after arriving at a consensus with the opposition parties.

What are the announcements to strengthen the capital market?

The Finance Minister informed that a proposal to amend the SEBI Act to strengthen the regulator is under consideration. The major proposals, finalised in consultation with SEBI, are

- Designated depository participants, authorised by SEBI, will now be free to register different classes of portfolio investors such as FIIs, sub accounts, QFIs etc subject to compliance with KYC guidelines.
- SEBI will simplify the procedures and prescribe uniform registration and other norms for entry of foreign portfolio investors by adopting a risk based approach to KYC to enable foreign investors such as central banks, sovereign wealth funds, university funds, pension funds etc to invest in India.
- In order to remove the ambiguity on FDI and FII , the country will follow the international practice and lay down a broad principle that, where an investor has a stake of 10 percent or less in a company, it will be treated as FII and for more than 10 percent stake, as FDI.
- FIIs will be allowed to participate in the exchange traded currency derivative segment to the extent of their Indian rupee exposure in India.
- FII will be permitted to use their investment in Corporate Bonds and Government securities as collateral to meet their margin requirements.
- Angel investors, who bring both experience and capital to new ventures, may be recognised as Category I AIF venture capital funds, subject to requirements prescribed by SEBI.
- SME (Small and medium enterprises) including start- up companies, will be permitted to list on the SME exchange without being required to make an IPO (Initial Public Offer) but the issue will be restricted to informed investors.
- Introduction of a dedicated debt segment on the exchanges, with banks and primary dealers as proprietary trading members, with permission for insurance companies, provident fund and pension funds to trade directly in the segment with approval of the respective regulators.

- The Mutual Fund segment of the stock exchanges, with mutual fund distributors as members, can leverage network to improve their reach and distribution.
- The list of eligible securities in which pension funds and provident funds can invest, will be enlarged to include exchange traded funds, debt mutual funds and asset backed securities.

What are the other proposals in the budget?

- Allocation of Rs.11.5 billion to BRGF (Backward Regions Grant Fund).
- The National Skill Development Corporation, established to skill 50 million people in the 12th plan period, including 9 million in 2013-14 will be provided funds by National Rural Livelihood Mission and National Urban Livelihood Mission and also 5 percent of Border Area Development Programme Fund , 10 percent from Special Central Assistance to Scheduled caste sub plan and Tribal sub plan and other funds.
- The defence allocation has been increased to Rs.2.04 trillion with Rs 867.41 billion for capital expenditure.
- Allocation of Rs.62.75 billion to the Ministry of Science and Technology, Rs.56.15 billion to the Department of Space and Rs.58.80 billion to the Department of Atomic Energy.
- Grant for institutions of excellence @ Rs.1billion provided to Aligarh Muslim University, Aligarh, Banaras Hindu University, Varanasi, Tata Institute of Social Sciences, Guwahati and Indian National Trust for Art and Cultural Heritage(INTACH).
- Setting up of National Institute of Sports Coaching at Patiala at a cost of Rs.2.50 billion over a period of three years.
- Expansion of FM radio service to all cities with population of more than 1lakh to be covered by private FM radio services.
- Allocation of Rs.2.0 billion, above Rs.4.55 billion already provided, to Ministry of Panchayati Raj to promote RGPSA (Rajiv Gandhi Panchayat Sasakthikaran Abhiyan) started this year.
- Allocation of Rs.5.32 billion in 2013-14 to the ambitious IT driven project to modernise the postal network.
- The Ghadar Memorial in San Francisco will be converted into a museum and library to mark the centenary of Ghadar movement.
- Transfer of Rs.5.87 trillion to the States and Union Territories under share of taxes, non-plan grants & loans and central assistance.
- Allocation of Rs.10 billion to the “Nirbhaya Fund” which will be set up to ensure the dignity and safety of women. Allocation of Rs.10 billion for the skill development programmes for the youth. The Direct Benefit Transfer(DBT) scheme will be rolled out throughout the country.

What are the direct tax proposals?

- No revision in the existing personal income tax slab, but a tax credit of Rs.2000 is provided to those with income up to Rs.5 lakhs.
- Imposition of a surcharge of 10 percent on persons with taxable income exceeding Rs.1crore per year (applicable to individuals, HUFs, firms and entities).
- Increase in surcharge from 5 percent to 10 percent on domestic companies with income exceeding Rs.10 crore per year. In the case of foreign companies, who pay higher rate of

corporate tax, the surcharge will increase from 2 percent to 5 percent.

- The current surcharge of 5 percent will be increased to 10 percent in all other cases such as dividend distribution tax.
- The additional surcharge will be in force for only one year. The education cess for all tax payers will continue at 3 percent.
- Tax benefit by additional deduction of interest of Rs.1 lakh, over and above Rs.1.50 lakh, to the first- home buyers to be claimed in AY 2014-15 and balance, if any, in AY 2015-16.
- Relaxation in the eligibility conditions of LIC policies to persons suffering from disability or certain ailments by increasing the permissible premium rate from 10 to 15 percent in respect of policies issued on or after 01.04.2013.
- Deductions under section 80D of IT Act extended to similar schemes of Central and State Governments. Donations made to National Children's Fund will be eligible for 100 percent deduction.
- Investment allowance @15 percent to a manufacturing company that invests more than Rs.100 crore in plant and machinery during 2013-14. Extension of eligible date for power sector projects to avail benefits under section 80-1A of IT Act from 31.03.2013 to 31.03.2014.
- Concessional rate of tax @15 percent on dividend received by an Indian Company from its foreign subsidiary to be continued for one more year. Indian Company shall not be liable to pay dividend distribution tax on distribution to its shareholders of that portion of income received from its foreign subsidy.
- The rate of tax on interest paid to non resident investors, reduced from 20 percent to 5 percent last year, to be extended to investments through a designated bank account in rupee denominated long term infrastructure bonds.
- Exemption to Securitisation Trust (FI), Investor Protection Fund (Depositories). Parity in taxation between IDF-Mutual fund & IDF-NBFC on payments to a non-resident @ 5%.
- Pass through status to Angel investors and category I Alternative investment funds registered with SEBI as venture capital funds.
- TDS @1 percent on the value of transfer of immovable property, excluding agricultural land, with consideration exceeding Rs.50 lakhs.
- A final withholding tax @20 percent on profits distributed by unlisted companies to shareholders through buy back of shares.
- Increase of tax rate from 10 to 25 percent on payments by way of royalty and fees for technical services to non-residents.
- Reduction in Security Transaction Tax: 1) Equity futures: from 0.017 to 0.01% 2) MF/ETF redemptions at fund counters: from 0.25 to 0.001% 3) MF/ETF purchase/sale on exchanges: from 0.1 to 0.001% , only on the seller.
- CTT (Commodities Transaction Tax) on non-agricultural commodities futures contracts at the same rate for equity futures @ 0.01%of the price of the trade.
- The modified provisions of GAAR (General Anti Avoidance Rules) will be effective from 01-04-2016. DTC (Direct Tax Code), based on international practices, will be presented soon.

What are the major proposals on indirect tax?

No change in the peak rate of basic duty of 10 percent for non-agricultural products and in the normal rate of excise duty @12 percent and normal rate of service tax @ 12 percent. Extension of the period of concession on customs duty for specific parts of electric and hybrid vehicles up to 31.03.2015.

Customs Duty: 1) Reduction in duty on specified machinery for manufacture of leather & leather goods to 5%, on pre-forms of precious and semi precious stones to 2%. 2)Withdrawal of export duty on de-oiled rice bran oil cake. Duty of 10% on export of unprocessed ilmenite and 5% on export of upgraded ilmenite. 3) Duty on set up boxes increased from 5 to 10% and on raw silk from 5 to 15%. 4) Steam coal and bituminous coal will be levied @ 2% customs duty/ CVD(countervailing duty). 5) Increase in duty for high end motor vehicles to 100%, motorcycles with engine capacity of 800 cc or more to 75%, and on yachts and similar vessels to 25% 6) Duty free limit raised to Rs.50,000 for male passenger and Rs.1 lakh for female passenger to bring jewellery.

Excise Duty: In the case of cotton, there will be zero excise duty at fibre stage also and in the case of spun yarn, there will be a duty of 12% at fibre stage. Total exemption for handmade carpets & textile floor coverings of coir/ jute from excise duty.

1) No CVD on imported ships and vessels. 2) Increase in excise duty of cigarettes by 18%, marble to 60 per sq.mtr, on SUVs (Sports Utility Vehicles) to 30% and on mobile phones (> Rs.2,000) to 6%. 3) 4 % duty on silver (manufactured from smelting Zinc /Lead), and an abatement of 35% on Ayurveda, Unani, Siddha, Homeopathy and bio-chemic systems of medicine.

Service Tax: State council vocational courses and testing activities in relation to agriculture included in negative list for service tax.

1) Full exemption of service tax on copyright limited to films exhibited in cinema halls. 2) Service tax on all air-conditioned restaurants. 3) Reduction in rate of abatement to 70% on high end homes and flats. 4) “Voluntary Compliance Encouragement scheme” for service tax defaulters.

INCOME	WORKING MEN		WORKING WOMEN		SENIOR CITIZENS	
In ₹	Old Tax	New Tax	Old Tax	New Tax	Old Tax	New Tax
2 Lakh	0	0	0	0	0	0
5 Lakh	30900	28840	30900	28840	25750	23690
8 Lakh	92700	92700	92700	92700	87550	87550
10 Lakh	133900	133900	133900	133900	128750	128750
25 Lakh	597400	597400	597400	597400	592250	592250
50 Lakh	1369900	1369900	1369900	1369900	1364750	1364750
100 Lakh	2914900	2914900	2914900	2914900	2909750	2909750
110 Lakh	3223900	3546290	3223900	3546290	3218750	3540625

Surcharge of 10 percent on persons with taxable income exceeding 1 crore rupees

Source:www.cybex.in

Your comments and feedback on this publication may be sent to Staff Training College, The South Indian Bank Ltd., Thrissur 680 001 or by E.mail: ho2099@sib.co.in

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