

BUDGET  
2008-09



# *Budget Highlights 2008 - 09*

# Budget 2008-09

## *Budget - 2008 at a Glance*

Mr. P. Chidambaram today has become the second ever Finance Minister to have presented 7 union budgets in his career. He has today presented his 5th consecutive budget. The only Finance Minister who has till now presented 7 or more budgets happen to be Mr. Morarji Desai. The main highlights of this Budget 2008-09 are given below:

After a robust tax collection in the current year, the FM has looked at increasing the basic income tax slabs while retaining the tax rates:

### **Male assesses :**

Upto	- Rs.1,50,000	- NIL
Rs.1,50,000	- Rs.3,00,000	- 10%
Rs.3,00,000	- Rs. 5,00,000	- 20%
Rs.5,00,000	& above	- 30%

### **Women assesses :**

Upto	- Rs.1,80,000	- NIL
Rs.1,80,000	- Rs.3,00,000	- 10%
Rs.3,00,000	- Rs.5,00,000	- 20%
Rs.5,00,000	& above	- 30%

### **Senior Citizen :**

The minimum exemption limit for senior citizens has been raised to Rs.2,25,000 from the existing Rs.1,95,000.

- ❖ No change in rate of surcharge.
- ❖ This change in the slabs is expected to benefit individual tax payers.

### **Major budget highlights :**

- ❖ Plan vs. non plan expenses – Planned expenditure estimated at Rs.2,43,386 crores and Non-Planned expenditure estimated at Rs.5,07,499 crores.
- ❖ Revenue deficit for 2008-09 estimated at Rs.55,184 crore, which amounts to 1% of GDP.
- ❖ Fiscal deficit for 2008-09 estimated at Rs.133,287 crore which is 2.5% of GDP.
- ❖ Tax to GDP ratio is estimated to rise to 12.5% at the end of 2007-08.
- ❖ Savings rate estimated to be 35.6% by the end of 2007-08.
- ❖ Investment rate estimated to be 36.3% by the end of 2007-08.
- ❖ GDP growth is estimated to be 8.7% for 2007-08.

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## Other budget proposals which affect us in the normal course are as under:

### Capital markets :

- ❖ Short Term Capital Gains (STCG) tax increased from the current 10% to 15%.
- ❖ Securities Transaction Tax (STT) would be treated as business expenditure.
- ❖ Commodity Transaction Tax (similar to Securities Transaction Tax) introduced for trading in commodities exchange.
- ❖ Service tax extended to the service provided by Asset Management Companies / Insurance Companies managing ULIPs.
- ❖ Exchange traded derivatives in Currency to be launched.
- ❖ PAN requirement to be extended to all transactions in capital market subject to a threshold.

### Debt markets :

- ❖ Corporate debt instruments issued in demat form and listed on recognised stock exchanges exempted from TDS.
- ❖ Interest rate derivatives to be launched.
- ❖ Credit derivatives market to be developed with appropriate safeguards.
- ❖ Tradability of domestic convertible bonds to be enhanced through the mechanism of enabling investors to separate the embedded equity option from the convertible bond.

### Financial Sector :

- ❖ Fund of Rs.5,000 crore to be created in NABARD to enhance its refinance operations to short term cooperative credit institutions.
- ❖ Two funds of Rs.2,000 crore each to be created in SIDBI - one for risk capital financing and other for enhancing refinance capability to the MSME sector.
- ❖ Fund of Rs.1,200 crore to be created in NHB to enhance its refinance operations in the rural housing sector

### Other areas which affect day to day :

- ❖ Major focus given for education, skill development & health care:
  - 20% hike in education budget from Rs.28,674 crore to Rs.34,400 crore.
  - 3 institutions getting special grant of Rs.100 cr each viz. Mahatma Phule Krishi Vidyapeeth (Rahuri, Maharashtra), University of Mysore and Delhi University.
  - 3 new IITs to be set up in Andhra Pradesh, Bihar and Rajasthan.

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- Indian Institutes of Science Education and Research to be set up at Bhopal and Thiruvananthapuram.
- 16 Central Universities to be set up in each of the hitherto uncovered states.
- Sarva Shiksha Abhiyan will be provided Rs.13,100 crore, Mid Day Meal scheme Rs.8,000 crore and Secondary education Scheme Rs.4,554 crore.
- Rs.44 crore allocated to the 22 Sainik Schools for immediate improvement of infrastructure.
- Rs.85 crore sanctioned for scholarships to students pursuing science education.
- ❖ Water purification system – Excise duty reduced from 16% to 8%.
- ❖ As usual, cigarettes becomes dearer with even the non filter cigarettes being brought on par with filtered cigarettes in term of tax imposed.
- ❖ Sixth central pay commission to submit report by March 31, 2008.
- ❖ Service tax slab increased to 8 lacs from 10 lacs
- ❖ Additional deduction of Rs.15,000 allowed under Section 80D to an individual paying medical insurance premium for his/her parent or parents.
- ❖ Reverse mortgage – not considered as sale. Further the stream of revenue received by the senior citizen would not be treated as income.

## **Corporate :**

- ❖ No change in the corporate tax structure.
- ❖ Parent company allowed to set off the dividend received from its subsidiary company against dividend distributed by the parent company; provided that the dividend received has suffered DDT and the parent company is not a subsidiary of another company.

## **Cenvat (Central Value Added Tax) :**

Cars and consumer durables are expected to be more affordable as per the proposal as there is a reduction in the general Cenvat from 16% to 14% on all the products.

## **Excise Duty :**

Excise duty has been reduced on several products like:

- ❖ Two wheeler – reduced from 16% to 12%
- ❖ Three wheeler –reduced from 16% to 12%
- ❖ Small cars – reduced from 16% to 12% and for hybrid cars from 24% to 14%
- ❖ Buses and their Chassis – reduced from 16% to 12%
- ❖ Pharmaceutical sector – reduced on all goods produced from 16% to 8%

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## Customs Duty :

- ❖ No changes in peak rate of customs duty.
- ❖ Customs duty on specified life saving drugs reduced from 10% to 5%.
- ❖ Customs duty on specified sports goods machinery down from 7.5% to 5%.
- ❖ Duty withdrawn on naptha for production of polymers.

## UMPP :

- ❖ Fourth Ultra Megha Power Projects (UMPP) at Tilaiya to be awarded shortly.
- ❖ 5 more UMPPs to be brought to the bidding stage; required support to be extended.

## Agriculture :

- ❖ Growth rate in agriculture for 2007-08 is estimated at 2.6%.
- ❖ Gross Capital Formation (GCF) in agricultural sector as a proportion of GDP is targeted to be 16% during in the Eleventh Plan.
- ❖ Complete waiver of all loans that were overdue on December 31, 2007 and which remained unpaid until February 29, 2008 for marginal farmers and small farmers.
- ❖ One Time Settlement (OTS) scheme in respect of other farmers for all loans that were overdue on December 31, 2007 and which remained unpaid until February 29, 2008; Rebate of 25% against payment of the balance of 75% under OTS.
- ❖ Loan waiver scheme to involve loans liability of Rs.60,000 crore and to benefit 4 crore farmers.
- ❖ A target of Rs.2.80 lakh crore for agriculture credit set for the coming year.
- ❖ Duty on crude and unrefined sulphur reduced from 5% to 2% to help raise domestic fertilizer production.

## Others :

- ❖ To protect tigers, Rs.50 crore for National Tiger Conservation Programme. Bulk of it to be used to raise Tiger Protection Force.
- ❖ Special Countervailing Duty on power imports.
- ❖ Threshold for small service providers raised from Rs.8 lakh to Rs.10 lakh.
- ❖ Allocation for defence to be increased by 10% from Rs.96,000 crore to Rs.1,05,600 crore.
- ❖ Rs.624 crore allocated for Commonwealth Games.

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- ❖ Rs.800 crore for accelerated power reforms programme.
- ❖ Allocation for Rajiv Gandhi Drinking Water Mission to be increased to Rs.7,300 crore.
- ❖ Foreign investment of 3.5 to \$8 billion expected for exploration and development of new oil blocks.
- ❖ Rs.32,676 crore extended as subsidy to Public Distribution System.
- ❖ Rs.20,000 crore for irrigation projects under AIPB, showing an increase of Rs.9,000 crore over last year.
- ❖ Rs.200 crore for potable water in schools.
- ❖ Allocation for Minority Affairs Ministry to be doubled from Rs.500 crore to Rs.1,000 crore.

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