



Union Budget 2011-2012

FINANCE MINISTER TERMS THE YEAR GONE BY AS A REMARKABLE YEAR BUT WOOS FOREIGN INVESTORS

The Union Finance Minister Mr. Pranab Mukherjee presented budget for 2011-12 in Lok-Sabha on 28th February 2011. Following are the key highlights of the budget

Seeking the blessings of Lord Indra and Goddess Lakshmi, while Mr Pranab Mukherjee has tried to make policy and tax amendments to encourage inflow of foreign exchange in India by permitting investments by Foreign institutional Investors in Mutual Funds, reduction in the rate of taxation of dividends received by Indian companies from foreign subsidiaries, there is not much respite on a domestic corporate front.

As per the Union Budget 2011-12, the growth has been swift and broad-based with the Indian economy expected to grow at 9% in financial year 2011-12 and the GDP during FY 2011 has been estimated to have grown at 8.6% in real terms, with agricultural sector growing at 5.4% and services sector growing at 9.6%.

The key budget estimates have been indicated below:

1. Fiscal deficit kept at 4.6% of GDP for 2011-12
2. Government's net borrowing through dated securities to be Rs 3,430 billion for 2011-12
3. Total expenditure pegged at Rs 12,570 billion with an Increase of 18.3% in total Plan allocation and 10.9% in the Non-plan expenditure
4. Gross tax receipts pegged at Rs 9,324.40 billion for 2011-12, non-tax revenues at Rs 1,254.35 billion
5. Central Government debt estimated at 44.2% of GDP for 2011-12 against 52.5% recommended by 13th Finance Commission.

We have summarised below the key highlights of the Union Budget 2011-12 as tabled in the Lok Sabha earlier today:

1. A Financial Sector Legislative Reforms Commission has been set-up to review and streamline the financial sector laws, rules and regulations and bring them in harmony with the requirements of a modern financial sector; the timeline for which is 24 months
2. Mortgage Risk Guarantee Fund to be set-up for guaranteeing housing loans by economically weaker sections
3. Disinvestment target is Rs 400 billion in FY 2012

4. Government committed to retain 51% stake in Central Public Sector Undertakings
5. A sum of Rs 60 billion for the year 2011-12 is proposed to be provided to enable Public Sector Banks to maintain Tier I Capital to Risk Weighted Asset Ratio (CRAR) at 8 per cent and increase government equity in some banks to 58% in addition to Rs 201.57 billion as provided during FY 2010-11
6. Foreign direct Investments policy proposed to be liberalized further
7. Registered FII and sub-accounts would be allowed to participate in Indian Mutual Fund sector; SEBI registered Mutual Funds going forward allowed to accept subscription from foreign investors subject to meeting the KYC norms
8. NRIs would also be allowed to invest in SEBI registered Mutual Funds
9. Investment limits for FIIs in unlisted corporate bonds with residual maturity of 5 years in infrastructure sector raised by additional USD 20 billion to USD 40 billion
10. FIIs permitted to invest in unlisted bonds with a minimum lock-in period of 3 years; however, FIIs can trade amongst themselves during this lock-in period
11. The Reserve Bank of India (RBI) to issue guidelines on procedural requirements in connection with issuance of new banking licenses
12. Interest subvention on housing loans to be extended by one year; further, 1% interest subvention on home loans extended to housing loans upto Rs 1.5 million where the cost of the house does not exceed Rs 2.5 million
13. In line with the Rail Budget 2011-12, tax free bonds of Rs 300 billion for improvement of infrastructure sector have been proposed including inter-alia Rs 100 billion towards Indian Railways and Rs 100 billion for National Highway Authority of India
14. Direct Taxes Code expected to be finalized in 2011 and would be presented in Budget 2012 to make it effective from 1 April 2012
15. A new scheme to be introduced for refund of service tax on lines of drawback of duties
16. Goods and Service Tax Bill (GST Bill) proposed to be introduced in the current session of Parliament
17. A new simplified return form 'Sugam' to be introduced to reduce the compliance burden of small taxpayers who fall within the scope of presumptive taxation
18. To fast track the disposal of cases, three more Benches of the Settlement Commission are being set up.
19. Additional 2 more Central Processing Centres (CPC) to be operational in Manesar and Pune by May 2011 and a fourth CPC will be established in Kolkata in FY 2011-12
20. A new Public Debt Management Bill to be introduced in 2012
21. New Companies Bill to be introduced in the current session
22. Amendment to the Indian Stamp Act, 1899 proposed
23. National Food Security Bill (NFSB) to be introduced in the Parliament during the course of this year

The FM in his efforts to align the Income-tax Act, 1961 to the Direct Taxes Code proposed to be in force from 1 April 2012 has proposed the following amendments in the Budget:

1. Basic exemption limit for general tax payers has been raised from Rs 160,000 to Rs 180,000 and for senior citizens from Rs 240,000 to Rs 250,000
2. Qualifying age of senior citizens has been reduced to 60 years from the current age of 65 years
3. Taxpayers with an age of 80 yrs or above would now be taxed only where their income exceeds Rs 500,000

4. Rate for payment of Minimum Alternate Tax (MAT) is proposed to be raised from 18% to 18.5%
5. Developers of Special Economic Zones and units operating therein would now be liable to pay MAT
6. Proposal for reduction of surcharge on domestic companies from 7.5% to 5%
7. Tax on distributed income increased to 30% on distribution by money market mutual fund or liquid fund to person other than Individuals or HUFs
8. Lower withholding tax of 5% would apply for notified Infrastructure Funds
9. To encourage forex inflow, the rate of taxation for foreign dividend has been reduced to 15% for Indian companies
10. A toolbox to discourage transactions with entities located in non-cooperative jurisdictions as may be notified to be provided
11. Withdrawal of 130 items from exemption under Central Excise
12. While Central excise duty and service tax rate remain unchanged at 10%, the base rate of excise duty has been raised from 4% to 5%

Despite the proposals to attract foreign investment in India, the FM has proposed to introduce a 'five fold' strategy to be put into operation to deal with the problem of generation and circulation of 'Black Money'. Towards this initiative, discussions have been concluded for 11 Tax Information Exchange Agreements (TIEAs) and 13 new Double Taxation Avoidance Agreements (DTAAs) along with revision of provisions of 10 existing DTAAs have been signed. Also, a dedicated cell for exchange of information is being set up to work on this agenda.

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