

India Budget 2019

July 2019






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CHARTERED ACCOUNTANTS



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Section

Economic Performance





Economic Performance

Indian Economy

Growth of the Indian economy moderated in 2018-19 with a growth of 6.8%, slightly lower than 7.2% in 2017-18. Yet, India continued to be the fastest growing major economy in the World.

- India maintained its macro economic stability by containing inflation within 4% and maintaining a manageable Current Account Deficit (CAD) to GDP ratio
 - CAD was relatively higher in 2018-19, mainly due to higher oil prices
- The manufacturing sector was characterized by higher growth in 2018-19 while the growth in agriculture sector witnessed tapering
- Growth in investment has bottomed out and has started to recover since 2017-18
 - Growth in fixed investment picked up from 8.3% in 2016-17 to 9.3% in 2017-18 and further to 10.0% in 2018-19
- Net FDI inflows grew by 14.2 per cent in 2018-19
- Capital expenditure of Central Government grew by 15.1% in 2018-19 leading to increase in share of capital expenditure in total expenditure

Given the macroeconomic situation and the structural reforms being undertaken by the government, the economy is projected to grow at 7% in 2019-20.

Broad Macro Economic Indicators

GDP Growth: India continues to remain the fastest growing major economy in the World in 2018-19, despite a slight moderation in its GDP growth from 7.2% in 2017-18 to 6.8% in 2018-19.

Inflation: During FY 19 headline (CPI-C) inflation continued to decline up to 3.4% (3.6% in FY18) on the back of low food inflation. Core inflation which was above 6% in the six out of first seven months of FY 19 started moderating November onwards.

Fiscal Deficit: Fiscal deficit of Central Government stood at a 3.4% of GDP in 2018-19

Trade Deficit: Current Account Deficit was 2.6% in April-December 2018

Gross NPA: Non-Performing Assets as percentage of Gross Advances reduced to 10.1% at end December 2018 from 11.5% at end March 2018

Fiscal Consolidation

Fiscal consolidation entails revenue augmentation and expenditure rationalization. The salient changes in the central government finances over the period which led to progressively reduction in primary and fiscal deficit, include improvement in tax to GDP ratio; significant consolidation of revenue expenditure and gradual tilt towards capital spending.

Trends in Revenue

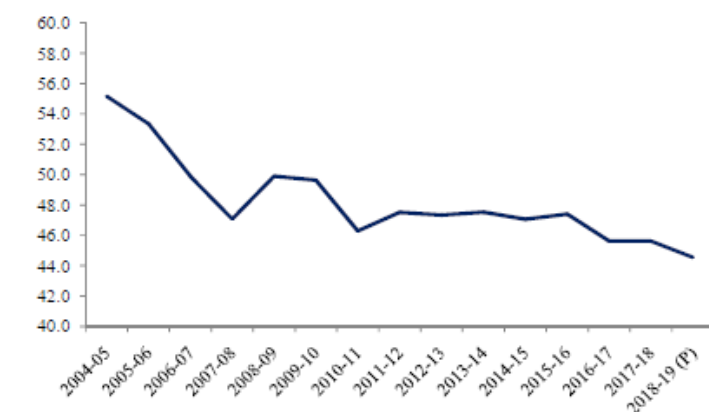
- Though there has been improvement in tax to GDP ratio (~10.9% in FY19) over the last six years, Gross Tax Revenue (GTR) as a proportion of GDP has declined by 0.3% in 2018-19
 - Direct taxes have grown by 13.4% due to improved performance of corporate tax. However indirect tax revenue was lower by 16%, mainly due to shortfall in GST collection
- Disinvestment proceeds during the year were Rs.0.85 lakh crores as against budgeted Rs.0.80 lakh crores

Trends in Expenditure

- Expenditure on defence, salaries, pensions, interest payments and subsidies account for more than 60% of total expenditure, leaving a small room for capital investments
 - Government took several initiatives like Make II, increased budget allocation etc to improve efficiency and utilization of defence expenditure and encourage private participation in defence sector
 - Subsidies have seen significant moderations through improved targeting
 - Govt, also did considerable restructuring and reclassification of Central sector and Centrally Sponsored Schemes in recent past to improve the quality of expenditure

Trends in Debt to GDP Ratio

India maintained its journey of continuously declining its debt to GDP ratio during the year. During FY19, centre's debt to GDP ratio was ~44% from ~47% in 2017-18





Economic Performance

Monetary Management and Financial Intermediation

- Monetary policy witnessed a U-turn over the last year. The benchmark policy rate was first hiked by 50 bps and later reduced by 75 bps due to weaker than anticipated inflation, growth slowdown and softer international monetary conditions
- Liquidity conditions, however, have remained systematically tight since September 2018
- The performance of the banking system has improved as NPA ratios declined and credit growth accelerated
 - However, financial flows to the economy remained constrained because of decline in the amount of equity finance raised from capital markets and stress in the NBFC sector
- The ecosystem for insolvency and bankruptcy is getting systematically built out, leading to recovery and resolution of significant amount of distressed assets as well as palpably improved business culture
- The money multiplier (M3/M0) declined for two successive years in 2017-18 and 2018-19, reflecting expansion in M0 at faster pace than M3. As on March 31, 2019, it stood lower at 5.7%
 - Tightening of bank capital and regulatory norms could be one of the reasons for such a trend

Outlook

Coming year could pose several challenges on the fiscal front, which may include:

- Apprehensions of the slowing of growth which will have implications for revenue collections
- FY19 has ended with shortfall in GST collections. Therefore, revenue buoyancy of GST will be key to improved resource position of both Central and State Governments
- Identifying new resources for expanded PM-KISAN and Ayushman Bharat as well as other new initiatives without compromising the fiscal deficit target
- US sanctions on oil imports from Iran is likely to have impact on oil prices and thereby on Petroleum subsidies apart from implications for current account balances
- Tax devolution recommendations of 15th Finance Commission, applicable from April 2020, will also affect central government's finances

Key Economic Data

Particulars	FY 2017-18 (Actual)	FY 2018-19 (BE)	FY 2018-19 (RE)	FY 2018-19 (PA)	FY 2019-20 (BE)
In INR Lakh Crores					
Revenue Receipts (1)	14.35	17.26	17.30	15.63	19.63
Capital Receipts (2)	7.07	7.16	7.28	7.48	8.24
Total Receipts (1+2) = (3)	21.42	24.42	24.57	23.11	27.87
Total Expenditure (4)	21.42	24.42	24.57	23.11	27.87
Revenue Expenditure (5)	18.79	21.42	21.41	20.08	24.48
Revenue Deficit (1-5) = (6)	4.44	4.16	4.11	4.45	4.85
As a % of GDP (8)	2.6%	2.2%	2.2%	2.3%	2.3%
Fiscal Deficit (4-(3-borrowings)) = (9)	5.91	6.24	6.34	6.45	7.04
As a % of GDP (10)	3.5%	3.3%	3.4%	3.4%	3.3%
Primary Deficit (6-Interest Payments) = (11)	0.62	0.48	0.47	0.63	0.43
As a % of GDP (12)	0.4%	0.3%	0.2%	0.3%	0.2%

Section

Key Policy Announcements





Key Policy Announcements

Infrastructure Development

Road and Air

- Bharatmala Phase 2 to be launched and State road networks will be developed
- PMGSY-III - envisaged to upgrade 1,25,000 kms of road length over the next five years, with an estimated cost of Rs. 80,250 Crores

Shipping and Inland waterways

- Jal Marg Vikas project and Sagarmala initiatives: improving logistics, reducing transportation cost and increasing competitiveness
- Two terminals at Sahibganj and Haldia and a navigational lock at Farakka would be completed in 2019-20

Rail

- PPP arrangements in railways infra development including faster development and completion of tracks, rolling stock manufacturing and delivery of passenger freight services
- Indigenously developed payment ecosystem - National Common Mobility Card was launched to make all the transport related payments from one card only
- Railway station modernization plans under consideration

Housing under PMAY-U

- A total of 1.54 crore rural houses have been completed in the last five years
- In the second phase, during 2019-20 to 2021-22, 1.95 crore houses are proposed to be provided to eligible beneficiaries

Empowering MSMEs and Social Enterprises

- Interest subvention scheme to provide interest subvention of 2% to all the GST registered MSMEs – Budget allocated Rs.350 Crore for 2019-20
- Payment platform to be created for easing the bill payments to MSMEs by government departments
- Creation of an electronic fund raising platform - Social Stock Exchange for social enterprises and voluntary organisations to get listed to raise funds from public

Make in India

- Changes in customs duties on various products has been proposed to promote Make in India

Startups promotion

- Exclusive TV channel for startups
- E-verification for establishing investor identity and source of funds to resolve tax issues relating to fund raising

Push to E-vehicles

- FAME-II commenced, approval of the Cabinet with an outlay of Rs.10,000 Crore for a period of 3 years, has commenced from 1st April, 2019
- Customs duty exemption on certain e-vehicle parts
- Income tax deduction of interest on loans for e-vehicle purchase

Measures for boosting infrastructure financing

- Action plan to deepen long term bonds market
- To permit transfer of FII/FPI investment in debt securities issued by IDF-NBFCs to domestic investors within the specified lock in period



Key Policy Announcements

FDI Norms relaxed

- 100% FDI to be permitted for Insurance intermediaries
- Statutory limit for FPI investment in a company increased to sectoral limit
- Local sourcing norms to be eased for FDI in single brand retail

Pradhan Mantri Karam Yogi Maandhan Scheme

- Pension scheme to benefit ~3 crore retail traders and small shopkeepers whose annual turnover is less than Rs.1.5 Crore
- Enrolment into the Scheme will be kept simple requiring only Aadhaar and a bank account and rest will be on self-declaration

Key Economic Driver-'Virtuous Cycle' of Investment

- Credit Guarantee Enhancement Corporation for which regulations have been notified by the RBI, will be set up in 2019-20
- Proposed increasing in minimum public shareholding in the listed companies to 35% from 25%
- Propose to increase the statutory limit for FPI investment in a company from 24% to sectoral foreign investment limit with option given to the concerned corporates to limit it to a lower threshold and FPIs will be permitted to subscribe to listed debt securities issued by REITs and InvITs
- Propose to merge the NRI-Portfolio Investment Scheme Route with the Foreign Portfolio Investment Route to provide NRIs an easy access to Indian Equity market

Pradhan Mantri Matsya Sampada Yojana

- The Department of Fisheries will establish a robust fisheries management framework
- This will address critical gaps in the value chain, including infrastructure, modernization, traceability, production, productivity, post-harvest management, and quality control

Other Focus Areas

- Creation of a New **Ministry-Jal Shakti Mantralaya**, by integrating Ministry of Water Resources, River Development and Ganga Rejuvenation and Ministry of Drinking Water and Sanitation, to provide water security and access to safe and adequate drinking water to all
- Possible utilisation of CAMPA funds for critical and over exploited areas identified under Jal Shakti Abhiyan
- Swachh Bharat Mission to also include sustainable solid waste management in every village
- Speeding up Bharat-Net by utilising the Universal Service Obligation Fund and a PPP arrangement
- Encouraging private entrepreneurship to generate renewable energy from farmers produce – Making Annadata as Urjadata also
- More Common Facility Centres (CFCs) are proposed to be set up to facilitate ~100 cluster based development of Traditional Industries under SFURTI
 - Focused sectors would be Bamboo, Honey and Khadi
- Consolidation of ASPIRE for setting up of Livelihood Business Incubators (LBIs) and Technology Business Incubators (TBIs) to improve the technology of Tradition industries
- Focus on Zero Budget Farming to double the farmer's income by the 75th year of Independence
- Proposed to streamline multiple labour laws into a set of four labour codes to ensure that process of registration and filing of returns will get standardized and streamlined
- Mission LED bulb-to promote the use of solar stoves and battery chargers in the country



Key Policy Announcements

Youth

- Proposed New National Education Policy to transform India's higher education system to one of the global best education systems
- Proposed National Research Foundation (NRF) to fund, coordinate and promote research in the country
- Amount of Rs. 400 Crore has been provided under the head, "World Class Institutions", for FY 2019-20, to up-graded the quality of higher education
- New Programme- '**Study in India**'
 - It will focus on bringing foreign students to study in our higher educational institutions
- In order to popularize sports at all levels, a National Sports Education Board for Development of Sportspersons would be set up under Khelo India Scheme

Naari Tu Narayani/Women

- Continued focus on women empowerment through expansion of Women SHG interest subvention programme to all the districts
- Every verified women SHG member having a Jan Dhan Bank Account, will be allowed an overdraft of Rs. 5,000
- One woman in every SHG will also be made eligible for a loan up to Rs. 1 lakh under the MUDRA Scheme

India's Soft Power

- Proposed to consider issuing Aadhaar Card for Non-Resident Indians with Indian Passports after their arrival in India without waiting for 180 days.
- Proposed to open Indian Embassies and High Commissions abroad in countries where India does not have a Resident Diplomatic Mission as yet, to provide better and more accessible public services, especially to the local Indian community in these countries
- Proposed to develop 17 iconic Tourism Sites into world class tourist destinations
 - It would enhance visitor experience which would lead to increase visits of both domestic and international tourists at these destinations

Banking and Financial Sector

- Recapitalisation package of Rs.70,000 Crores for PSBs to boost credit for a strong impetus to the economy
- To ease the fund access by financially sound NBFCs, government will provide six months' partial credit guarantee to PSBs purchasing high rated pooled assets of such NBFCs, for first loss of up to 10%
- Proposed for strengthening the regulatory authority of RBI over NBFCs
- Requirement for creating DRR by NBFCs in case of public placement of debts has been done away with
- Separating the NPS Trust from PFRDA with appropriate organizational structure to maintain arm's length relationship of the NPS Trust with PFRDA
- To facilitate on-shoring of international insurance transactions and to enable opening of branches by foreign reinsurers in the International Financial Services Centre (IFSC), it is proposed to reduce Net Owned Fund requirement from Rs. 5,000 Crore to Rs. 1,000 Crore
- Proposed to modify present policy of retaining 51% Government stake in case of disinvestment to retaining 51% stake inclusive of the stake of Government controlled institutions

Section

Budget Highlights





BUDGET HIGHLIGHTS (1/2)

Direct Taxes

Personal tax

- Additional Income tax deduction of Rs. 1.5 lakh of interest on loan taken for purchase of electric vehicle
- Additional deduction of Rs. 1.5 lakh for interest on loans borrowed for affordable housing until 2020 (upto Rs.45 Lakhs)
- Interchangeability of PAN and Aadhaar for Income Tax Returns
- Faceless E-assessment for Tax Scrutiny
- Propose to enhance surcharge on taxable income of Rs. 2 to 5 Crore and Above Rs. 5 Crore effective tax rate will increase by around 3% and 7%, respectively
- Pre-filled tax returns will be made available to taxpayers containing details of salary income, capital gains
- Individual or HUF to deduct tax at source at the rate of 5%, if the annual payment made to a contractor or professional exceeds Rs. 50 lakh
- In case person fails to intimate the Aadhaar number, the PAN allotted to such person shall be made inoperative after the date notified for the said linking

Corporate tax

- Tax Rate of 25% on Companies with turnover of upto Rs. 400 crores
- The conditions of continuity of shareholding for carry forward and set off of losses shall not apply to distressed companies
- For the purposes of computation of Minimum Alternate Tax (MAT) liability of distressed companies, the aggregate of brought forward losses and unabsorbed depreciation shall also be allowed as deduction
- Listed companies shall also be liable to pay additional tax at 20% in case of buy back of share, as is the case currently for unlisted companies

Incentives to Startups

- Start up's would not be required Scrutiny by IT Department
- Carry forward and set off losses for startups to be relaxed enabling them to carry forward their losses on satisfaction of any one of the two conditions, i.e. continuity of 51% shareholding/voting power or continuity of 100% of original shareholders
- Exemption of capital gains from sale of residential property on investment of net consideration in equity shares of eligible start-up shall be extended by 2 years on or before 31st March, 2021

Other Measures

- TDS of 2% on cash withdrawal exceeding Rs. 1 cr. from a Bank account per year
- STT is proposed to be restricted to the difference between settlement and strike price of options
- For the purpose of tax deduction at source from payment made for acquisition of immovable property, consideration shall include other charges in the nature of club membership fee, car parking fee, electricity and water facility fee, maintenance fee, advance fee or any other charges of similar nature which are incidental to the purchase of immovable property
- Gift of any sum of money, or property situated in India, by a person resident in India to a person outside India (not being a gift otherwise exempt), on or after 5th day of July 2019, shall be deemed to accrue or arise in India
- Return filing compulsory for persons, who have deposited more than Rs. 1 crore in a current account in a year, or who have expended more than Rs. 2 lakh on foreign travel or more than Rs. 1 lakh on electricity consumption in a year or who fulfils the prescribed conditions
- Prosecution provision for non-filing of return of income -increase the threshold of tax payable from Rs. 3,000 to Rs. 10,000, for proceeding against a person



BUDGET HIGHLIGHTS (2/2)

Indirect Taxes

Goods & Service Tax

- Threshold exemption limit from Rs. 20 lakhs to Rs. 40 lakhs for a supplier of goods
- Taxpayer having annual turnover < 5 crore to file quarterly return
- Free accounting software for return to small businesses
- Fully automated GST refund module
- Electronic invoice system –no separate E-way bill
- Legacy Dispute Resolution Scheme for quick closure of Pre-GST litigations
- Registered person to transfer an amount from one head to another head in the electronic cash ledger
- Interest in GST only on the net cash tax liability
- Mandatory Aadhaar authentication for specified class of existing/new taxpayers
- National Anti-profiteering Authority to impose penalty equivalent to 10% of the profiteered amount

Excise Duty

- Increase special additional duty and road and infrastructure cess on diesel and petrol by Re 1/ltr each
- Rationalised Excise duty on raw and semi-finished leather
- Nominal basic excise duty Tobacco products and crude

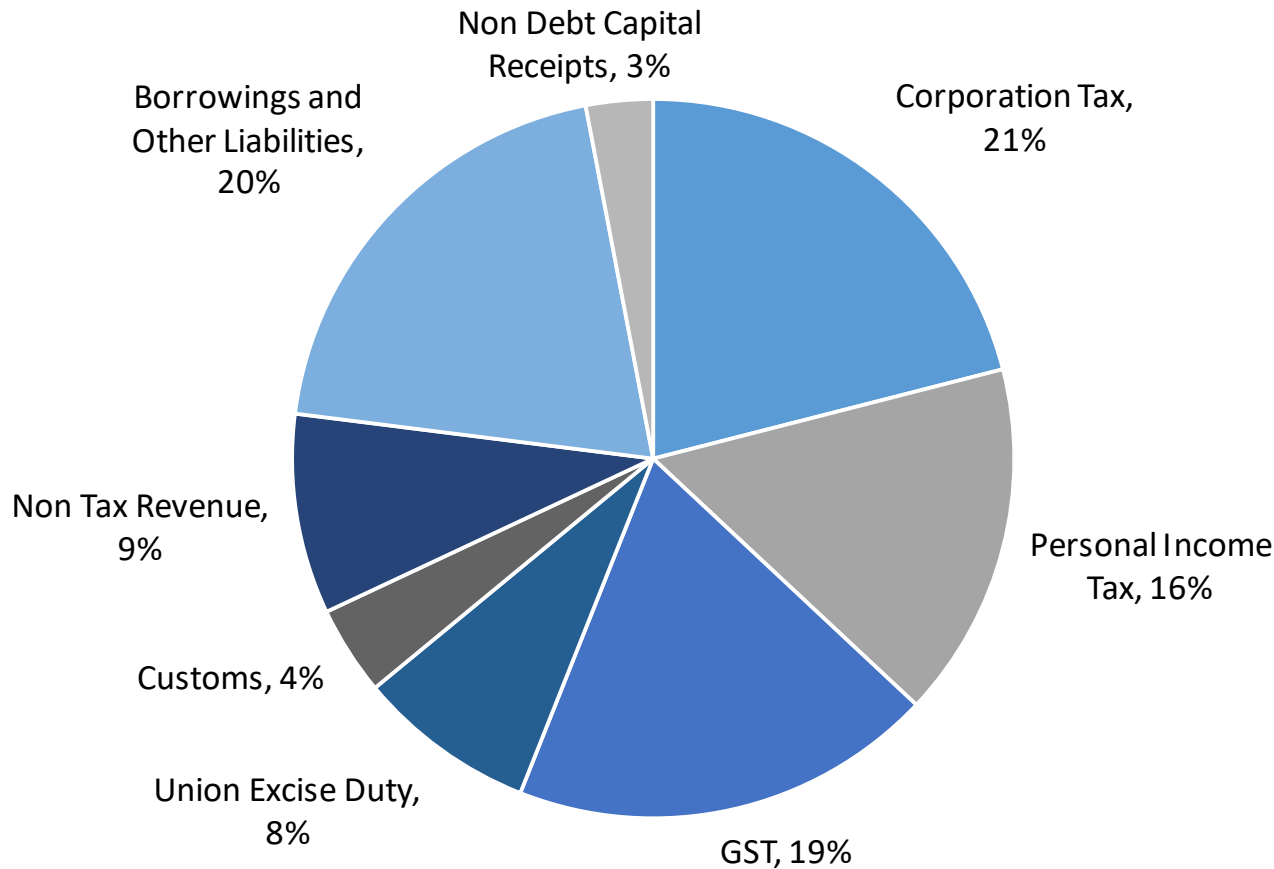
Custom Duty

- Import of defence equipment exempted from basic customs duty
- Customs duty exempted on certain parts of Electric Vehicles(Evs) and capital goods required for Evs
- Custom duty on gold and other precious metals increased from 10% to 12.5%
- Custom duty on gold increased by 2%
- Basic customs duty is being increased on items such as cashew kernels, PVC, Vinyl flooring, tiles, metal fittings, mountings for furniture, auto parts, certain kinds of synthetic rubbers, marble slabs, optical fibre cable, CCTV camera, IP camera, digital and network video recorders etc
- 5 % custom duty imposed on imported books
- Misuse of duty free scrips and drawback facility involving more than fifty lakhz rupees cognizable and non-bailable offence

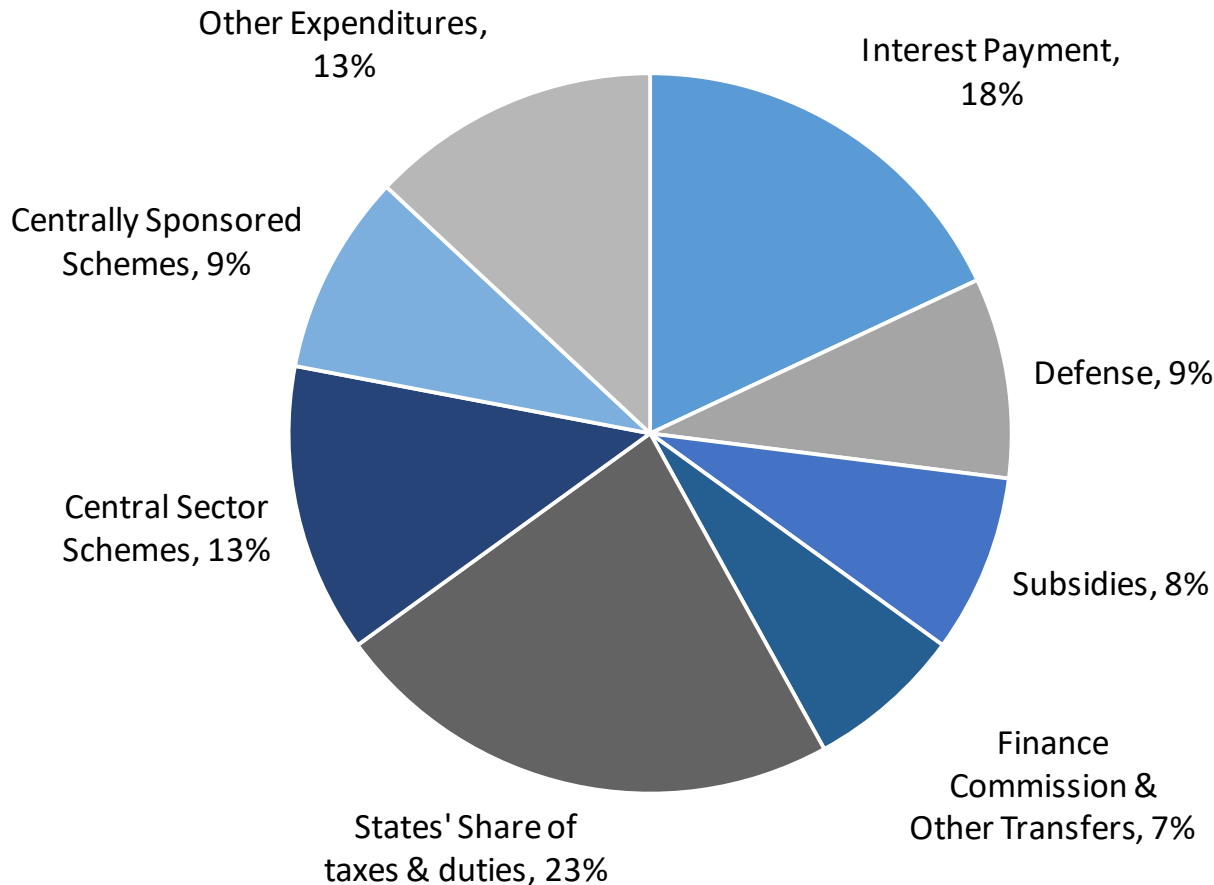


Budgeted Revenue vs Expenditure

Where the Rupee will come from: 2019-20



Where the Rupee will go: 2019-20





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