Confederation of Indian Industry

UNION BUDGET

2013-14

An Analysis

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FOREWORD

CII has welcomed the Union Budget 2013-14, which is growth and investment oriented. Coming against the backdrop of challenging global and domestic macro-economic conditions, the Budget makes laudable efforts to optimise growth drivers while addressing imperatives of inclusion. CII is happy that many of its suggestions have found mention in the Budget.

In a welcome change from fiscal slippage on other occasions, the fiscal deficit has been contained at 5.2 per cent of GDP in 2012-13 and targeted at 4.8 per cent of GDP for 2013-14. While addressing fiscal consolidation, it focuses on inclusive and sustainable human development. Commendable initiatives have been taken in critical sectors such as agriculture, investment in manufacturing and infrastructure, MSME growth and capital market development among others.

CII particularly welcomes the stress placed on inclusive growth and development. Plan expenditure has been raised by almost 30 per cent, and inflationary pressures due to supply-side measures are sought to be dampened. This would encourage further monetary steps to lower interest rates which would catalyse investments. The expenditure on education and health-care has been increased substantially, while skill development has received a big boost. This is in line with CII's emphasis on enhancing human development.

CII welcomes the measures announced to increase investment in the infrastructure and the energy sectors. These include measures on the financing side such as allowing tax free bonds of upto Rs 50,000 crore and the operation of infrastructure debt funds. In addition, the Finance Minister has promised to address specific bottlenecks in sectors such as roads and oil and gas.

The measures to encourage micro, small and medium enterprises should go a long way in helping these firms to scale up and invest in technology. The three-year extension of non-tax benefits after a unit attains medium size would encourage growth and employment creation.

Chandrajit Banerjee
Director General
Confederation of Indian Industry

Chapter 1
Key Features of Budget 2013-14

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Key Features of Budget 2013-14

- Budget for 2013-14 identifies ‘Higher growth leading to inclusive and sustainable development’ as its mool mantra and endeavors to create economic space and find resources to achieve the objective of inclusive development.
- Creating opportunities for our youth to acquire education and skills that will get them decent jobs or self-employment identified as one of the overarching goal of budget.

Central Government Deficits

- Revised fiscal deficit for 2012-13 stands at 5.2 per cent of GDP and is at 4.8 per cent of GDP for the year 2013-14.
- Revenue deficit for the current year at 3.9 per cent and for the year 2013-14 at 3.3 per cent.
- By 2016-17 fiscal deficit to be brought down to 3 per cent, revenue deficit to 1.5 per cent and effective revenue deficit to zero per cent.

The Plan and Budgetary Allocation

- During 2013-14, Budget Estimates (BE) of total expenditure is ₹ 16,65,297 crore (16 percent increase over Revised Estimated (RE) 2012-13 and BE of Plan Expenditure is at ₹ 5,55,322 crore (29 percent increase over RE 2012-13).
- Plan Expenditure in 2013-14 to grow at 29.4 per cent over Revised Estimates for the current year.
- ₹ 37,330 crore allocated to the Ministry of Health & Family Welfare. New National Health Mission gets an allocation of ₹ 21,239 crore. ₹ 1,650 crore allocated for six AIIMS-like institutions.
- Allocation of ₹ 65,867 crore to the Ministry of Human Resource Development, an increase of 17 percent over the RE of the current year.
- ₹ 27,258 crore provided for Sarva Shiksha Abhiyaan (SSA).
- An increase of 25.6 per cent over RE of the current year for investments in Rashtriya Madhyamik Shiksha Abhiyan (RMSA) which has been allocated ₹ 3,983 crore.
- Allocation of ₹ 80,194 crore in 2013-14 for Ministry of Rural Development marking an increase of 46 percent over RE 2012-13.
- Proposal to carve out PMGSY-II and allocate a portion of the funds to the new programme that will benefit States such as Andhra Pradesh, Haryana, Karnataka, Maharashtra, Punjab and Rajasthan.
- ₹ 14,873 crore allocated for JNNURM in BE 2013-14 as against ₹ 7,383 crore of RE 2012-13. Out of this, a significant portion will be used to support the purchase of upto 10,000 buses, especially by the hill States.

Agriculture

- ₹ 27,049 crore allocated to Ministry of Agriculture, an increase of 22 per cent over the RE of current year.
- Interest subvention scheme for short-term crop loans to be continued, scheme extended for crop loans borrowed from private sector scheduled commercial banks.
- National Institute of Biotic Stress Management for addressing plant protection issues to be established at Raipur and Chhattisgarh and Indian Institute of Agricultural Bio-technology to be established at Ranchi, Jharkhand.
- Pilot scheme to replant and rejuvenate coconut gardens implemented in some districts of Kerala and the Andaman & Nicobar extended to entire State of Kerala.
- Credit Guarantee Fund to be created in the Small Farmers' Agri Business Corporation with an initial corpus of ₹ 100 crore.
- National Livestock Mission to be set up. A provision of ₹ 307 crore made for the Mission.
- An additional provision of ₹ 10,000 crore for National Food Security Act.

Investment, Infrastructure and Industry

- Infrastructure tax-free bonds of upto ₹ 50,000 crore in 2013-14,
- Raising corpus of Rural Infrastructure Development Fund (RIDF) to ₹ 20,000 crore
- ₹ 5,000 crore will be made available to NABARD to finance construction for warehousing.
- A regulatory authority for road sector to beset up.
- 3000 kms of road projects in Gujarat, Madhya Pradesh, Maharashtra, Rajasthan and Uttar Pradesh to be awarded in the first six months of 2013-14.
- Companies investing ₹ 100 crore or more in plant and machinery during the period 1.4.2013 to 31.3.2015 will be entitled to deduct an investment allowance of 15 percent of the investment.
- Incentives to semiconductor wafer fab manufacturing facilities, including zero customs duty for plant and machinery.
- Rajiv Gandhi Equity Savings Scheme to be liberalized.
- Additional deduction of interest upto ₹ 1 lakh for a person taking first home loan upto ₹ 25 lakh during period 1.4.2013 to 31.3.2014
- In consultation with RBI, instruments protecting savings from inflation to be introduced.
- The Delhi Mumbai Industrial corridor (DMIC) project has made rapid progress. Plans for seven new cities have been finalised and work on two new smart industrial cities at Dholera, Gujarat and Shendra Bidkin, Maharashtra to start during 2013-14.
- Chennai Bengaluru Industrial Corridor to be developed .
- Government to construct a transmission system from Srinagar to Leh at a cost of ₹ 1,840 crore.
- Two new major ports to be established in Sagar, West Bengal and in Andhra Pradesh to add 100 million tonnes of capacity.
- A new outer harbour to be developed in the VOC port at Thoothukkudi, Tamil Nadu through PPP at an estimated cost of ₹ 7,500 crore.
- A policy to encourage exploration and production of shale gas to be announced.
- Oil and gas exploration policy to be reviewed - to move from profit-sharing policy in the oil and gas sector.
- The 5 MMTPA LNG terminal in Dabhol, Maharashtra will be fully operational in 2013-14.
- Devise a PPP policy framework with Coal India Limited as one of the partners in order to increase the production of coal for supply to power producers and other consumers. Ministry of Coal to announce Government's policies in due course.
- Benefits or preferences enjoyed by MSME to continue upto three years after they grow out of this category.
- To support MSME, refinancing capacity of SIDBI raised to ₹ 10,000 crore. Another sum of ₹ 100 crore provided to India Microfinance Equity Fund.
- A corpus of ₹ 500 crore provided to SIDBI to set up a Credit Guarantee Fund for factoring.

- Allocation of ₹ 50 crore to Ministry of Textile to incentivise setting up Apparel Parks within the SITPs to house apparel manufacturing units.
- Working capital and term loans at a concessional interest of 6 per cent to handloom sector.

Financial Sector

- ₹ 14,000 crore provided in BE 2013-14 for infusing capital in public sector banks.
- All branches of public sector banks to have ATM by 31.3.2014.
- Proposal to set up India's first Women's Bank as a public sector bank. Provision of ₹ 1,000 crore as initial capital.
- ₹ 6,000 crore provided to Rural Housing Fund in 2013-14. National Housing Bank to set up Urban Housing Fund. ₹ 2,000 crore to be provided to the fund in 2013-14.
- Number of proposals finalised, in consultation with IRDA such as empowering insurance companies to open branches in Tier-II cities and below without prior approval of IRDA, KYC of banks to be sufficient to acquire insurance policies,
- Banks to be permitted to act as insurance brokers, banking correspondent allowed to sell micro-insurance products and achieving the goal of having an office of LIC and an office of at least one public sector general insurance company in towns with population of 10,000 or more.
- Rashtriya Swasthya Bima Yojana to be extended to other categories such as rickshaw, auto-rickshaw and taxi drivers, sanitation workers, rag pickers and mine workers.
- A comprehensive social security package to be evolved for unorganised sector by facilitating convergence among different schemes.
- Designated depository participants, authorised by SEBI, may register different classes of portfolio investors, subject to compliance with KYC guidelines.
- SEBI to simplify the procedures and prescribe uniform registration and other norms for entry for foreign portfolio investors.
- Clear-cut principle to determine FII versus FDI flow .A principle that, where an investor has a stake of 10 percent or less in a company, it will be treated as FII and, where an investor has a stake of more than 10 percent, it will be treated as FDI to be laid.
- SEBI to prescribe requirement for angel investor pools by which they can be recognized as Category I AIF venture capital funds.
- Stock exchanges to be allowed to introduce a dedicated debt segment on the exchange.

Other Proposals

- 'Generation-based incentive' reintroduced for wind energy projects and ₹ 800 crore allocated for this purpose.
- A grant of ₹ 100 crore each made to 4 institution of excellence.
- A National Institute of Sports Coaching to be set up at Patiala at a cost of ₹ 250 crore over a period of three years.
- About 839 new FM radio channels to be auctioned in 2013-14 and, after the auction, all cities having a population of more than 100,000 will be covered by private FM radio services.
- Augmentation in the Budget allocation of Rajiv Gandhi Panchayat Sashaktikaran Abhiyan (RGPSA) to ₹ 455 crore in 2013-14. An additional ₹ 200 crore proposed to be provided.
- An ambitious IT driven project to modernise the postal network at a cost of ₹ 4,909 crore. Post offices to become part of the core banking solution and offer real time banking services.
- Centrally Sponsored Schemes (CSS) and Additional Central Assistance (ACA) Schemes to be restructured into 70 schemes. Central fund for the schemes to be given to the States as part of central plan assistance.
- A fund - "Nirbhaya Fund" - to be setup with Government contribution of ₹ 1,000 crore.
- National Skill Development Corporation to set the curriculum and standards for training in different skills. ₹ 1000 crore set aside for this scheme.

Tax Proposals.

- Tax Administration Reforms Commission to be set up.

Direct Taxes

- Tax credit of ₹ 2,000 for persons with income up to ₹ 5 lakh
- Surcharge of 10 per cent on persons (other than companies) whose taxable income exceeds ₹ 1 crore to augment revenues.
- Increase in surcharge from 5 to 10 per cent on domestic companies whose taxable income exceeds ₹ 10 crore.
- In case of foreign companies, who pay a higher rate of corporate tax, surcharge increased from 2 to 5 per cent, if the taxable income exceeds ₹ 10 crore.
- In all other cases such as dividend distribution tax or tax on distributed income, current surcharge increased from 5 to 10 per cent.
- Additional surcharges to be in force for only one year.
- Education cess to continue at 3 per cent.
- Permissible premium rate increased from 10 percent to 15 per cent of the sum assured by relaxing eligibility conditions of life insurance policies for persons suffering from disability and certain ailments.
- Contributions made to schemes of Central and State Governments similar to Central Government Health Scheme, eligible for section 80D of the Income tax Act.
- Donations made to National Children Fund eligible for 100 percent deduction.
- Investment allowance at the rate of 15 per cent to manufacturing companies that invest more than ₹ 100 crore in plant and machinery during the period 1.4.2013 to 31.3.2015.
- 'Eligible date' for projects in the power sector to avail benefit under Section 80- IA extended from 31.3.2013 to 31.3.2014.
- Concessional rate of tax of 15 percent on dividend received by an Indian company from its foreign subsidiary proposed to continue for one more year.
- Securitisation Trust to be exempted from Income Tax. Tax to be levied at specified rates only at the time of distribution of income for companies, individual or HUF etc. No further tax on income received by investors from the Trust.
- Investor Protection Fund of depositories exempt from Income-tax in some cases.
- Parity in taxation between IDF-Mutual Fund and IDF-NBFC.
- A Category I AIF set up as Venture capital fund allowed pass through status under Income-tax Act.
- TDS at the rate of 1 percent on the value of the transfer of immovable properties where consideration exceeds ₹ 50 lakhs. Agricultural land to be exempted.
- A final withholding tax at the rate of 20 percent on profits distributed by unlisted companies to shareholders through buyback of shares.
- Proposal to increase the rate of tax on payments by way of royalty and fees for technical services to non-residents from 10 percent to 25 percent.
- Reductions made in rates of Securities Transaction Tax in respect of certain transaction.
- Proposal to introduce Commodity Transaction Tax (CTT) in limited way. Agricultural commodities will be exempted.
- Modified provisions of GAAR will come into effect from 1.4.2016.
- Rules on Safe Harbour will be issued after examing the reports of the Rangachary Committee appointed to look into tax matters relating to Development Centres & IT Sector and Safe Harbour rules for a number of sectors.
- Fifth large tax payer unit to open at Kolkata.
- A number of administrative measures such as extension of refund banker system to refund more than ₹ 50,000, technology based processing, extension of e-payment through more banks and expansion in the scope of annual information returns by Income-tax Department.

Indirect Taxes

- No change in the normal rates of 12 percent for excise duty and service tax.
- No change in the peak rate of basic customs duty of 10 percent for non-agricultural products.

Customs

- Period of concession available for specified part of electric and hybrid vehicles extended upto 31 March 2015.
- Duty on specified machinery for manufacture of leather and leather goods including footwear reduced from 7.5 to 5 percent.
- Export duty on de-oiled rice bran oil cake withdrawn.
- Duty of 10 percent on export of bauxite-unprocessed ilmenite and 5 percent on export on ungraded ilmenite.
- Concessions to air craft maintenance, repair and overhaul (MRO) industry.
- Duty on Set Top Boxes increased from 5 to10 percent.
- Duty on raw silk increased from 5 to 15 per cent.
- Duties on Steam Coal increased from nil basic plus 1 per cent CVD to 2 per cent basic plus 2 per cent CVD. Customs duties on Bituminous Coal reduced from 5 per cent basic plus 6 per cent CVD to 2 per cent basic plus 2 per cent CVD.
- Duty on imported luxury goods such as high end motor vehicles, motor cycles increased.

Excise Duty

- To provide relief to ship building industry, ships and vessels exempted from excise duty. No CVD on imported ships and vessels.
- Specific excise duty on cigarettes increased by about 18 per cent. Similar increase on cigars, cheroots and cigarillos.
- Excise duty on SUVs increased from 27 to 30 per cent. Not applicable for SUVs registered as taxies.
- 4 per cent excise duty on silver manufactured during smelting of zinc or lead.
- Excise duty on mobile phones priced at more than ₹ 2000 increased from 1 per cent to 6 per cent.

Service Tax

- Vocational courses offered by institutes affiliated to the State Council of Vocational Training and testing activities in relation to agricultural produce also included in the negative list for service tax.
- Exemption of Service Tax on copyright on cinematography limited to films exhibited in cinema halls.
- Service Tax levied on all air conditioned restaurants .Earlier it was applicable to air conditioned restaurants having licence to serve liquor.
- A onetime scheme called 'Voluntary Compliance Encouragement Scheme' proposed to be introduced. Defaulter may avail of the scheme on condition that he files truthful declaration of Service Tax dues since 1st October 2007.

Good and Services Tax

- A sum of ₹ 9,000 crore for payment during 2013-14 provided for payment of CST loss compensation of ₹ 34,000 crore.

- Work on draft GST Constitutional amendment bill and GST law expected to be taken forward.

Chapter 2
Analysis of the Budgetary Proposals

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1. Backdrop

The Union budget 2013-14 has been presented under the challenging backdrop of economic slowdown on the one hand and the fragile nature of government finances on the other. In such a scenario, the Budget 2013-14 has attempted a fine balancing act which aims at addressing the economic compulsions of fiscal consolidation and investment revival on one hand while catering to the imperatives of inclusive growth in the pre-election year on the other. No wonder, the Finance Minister has underlined measures which conform to the goal of 'higher growth leading to inclusive and sustainable development'.

Under the circumstances, the questions doing the rounds are: To what extent would the provisions announced in the Union Budget rekindle investments and a growth rebound? Whether the Finance Minister has adhered to the target of reining in the fiscal deficit to 5.2 per cent of GDP in 2012-13 without compromising on Plan expenditure? What are the sectoral initiatives announced in the Budget which would induce growth in the economy? Have the prevailing political compulsions, this being the last full fledged Budget before general elections and with nine states going to the polls in 2013, paved the way for a populist Budget? Would the provisions outlined in the Budget especially on education, skills and health care cater to the objective of inclusive growth? An attempt is being made in the underlying paragraphs to examine such issues in detail.

2. Fiscal Consolidation: Credibility Restored

It is gratifying to note that the Finance Minister has succeeded in reining in the fiscal deficit to 5.2 per cent of GDP in 2012-13 and 4.8 per cent in 2013-14. Similarly, the revenue deficit for the current year has been contained at 3.9 per cent for the current year and 3.3 per cent for 2013-14. The Finance Minister has rightly adhered to the new fiscal consolidation path as recommended by the Kelkar Committee and even exceeded the market expectations in meeting the fiscal and revenue deficit targets for the current year. It is hoped that going forward, our fiscal deficit would be brought down to 3 per cent, revenue deficit to 1.5 per cent and effective revenue deficit to zero percent of GDP in 2016-17. What is also significant is that the revenue deficit as a proportion of fiscal deficit has recorded a secular decline from 76 per cent in 2011-12 to 75 per cent in 2012-13 and is slated to fall further to 70 per cent in 2013-14. Such a scenario would help contain inflation, prevent a rating downgrade and steer our economy on the path of growth.

However, having said so, not much has been done to improve the quality of fiscal deficit. This is borne out from the fact that there has been a squeeze in Plan expenditure on the capital account in the current year. Similarly, non-Plan revenue expenditure, incurred on subsidies, wages etc has gone up.

Besides, the borrowing requirement to finance this deficit is rather high which could crowd out private investment and is expected to put pressure on interest rates, going forward.

Measures to introduce the goods and services tax by setting aside ₹ 9000 crore as the first installment for CST compensation and working for building a consensus on constitutional amendment is a welcome move. And so is the move to maintain a status quo on the peak rates of customs duty on non-agricultural products as also excise and service tax. Similarly, the announcement to centrally sponsored schemes and additional central assistance schemes to be restructured into 70 schemes.

3. Re-energising Investment in the Manufacturing Sector

The share of manufacturing has continued to hover at around 16 percent of GDP for the last two decades. The government aims to take the share of manufacturing in GDP to 25 percent by 2022, which requires the sector to record a growth of 12-14% per annum. The growth of manufacturing sector is crucial for harnessing the demographic dividend and achieving inclusive growth in our economy. However, the ongoing global economic slowdown and adverse macro-economic conditions at home have resulted in manufacturing growth slipping to less than 2% in the current year.

Expressing concern over the deepening industrial slowdown which in turn is adversely affecting economic growth, the Finance Minister has announced a slew of measures to bring manufacturing growth back on track. CII welcomes the measures to kick-start investment in the manufacturing sector. Among the major announcements to spur investment is the introduction of investment allowance of 15% on high value investments made above ₹100 crore on plant and machinery. The industry also appreciates the setting up of the Cabinet Committee on Investment (CCI) to monitor investment proposals as well as expedite projects under implementation, including stalled projects. Comments on some specific sectors are as follows:

ICTE Manufacturing

- Recognising the pivotal role of semiconductor wafer fabs in the eco-system of manufacture of electronics, the budget announced appropriate incentives to semiconductor wafer fab manufacturing facilities, including zero customs duty for plant and machinery.

- Treating funds provided to technology incubators located within academic institutions and approved by the Ministry of Science and Technology or by the Ministry of MSME as CSR expenditure will encourage development of indigenous technologies.

- Increase in excise duty from 1% to 6% on mobile phones priced at above ₹2, 000/ is expected to adversely impact demand. Besides, it also goes against the objective of inclusion as mobile is among the cheapest mode of communication.

Coal

- The move to device a PPP policy framework with Coal India as a means to reduce our dependence on coal imports is welcome as this will encourage more domestic production and lead to infusion of technology.

Mining

- The proposed basic custom duty reduction for machinery and instruments in mineral surveying and prospecting augurs well for the mining construction equipment sector, though the inclusion of other areas like drilling would have had a more diverse impact.

Steel

- The additional sops provided for home loans of upto ₹ 25 Lakhs will have a positive spill over impact on the steel sector. The other incentives such as encouragement provided to infrastructure projects in line with the target set in the 12th five year plan would provide an impetus to the steel industry.

Textiles

- The move to continue with the Technology Upgradation Fund Scheme (TUFS) and the fund allocation for the purpose is welcome. At the same time, new strategies will have to be evolved to help the sector ride out of slowdown period.

- The investment allowance of 15% will encourage new investments in the textiles sector and would boost modernization and expansion in the existing textile units.

- The incentives for setting up textile parks, apparel parks and the announcement of zero per cent excise duty on cotton and fibres are all in line with the CII recommendations and will help revive the textile sector.

- The announcement of allocation of ₹1 lakh crore to augment the skills of youth through skill training will boost employment and productivity in the textile sector.

Capital Goods

- To attract new investments, an investment allowance of 15 percent has been announced for a company investing ₹ 100 crore or more in plant and machinery during the period 1.4.2013 to 31.3.2015. This can be seen as a progressive step for the capital goods sector as such an allowance is likely to boost demand for such plant and machinery.

- Further, enhanced fund allocation for the infrastructure sector is also a welcome step as it would spur demand in the capital goods industry.

Automobiles

- There is a serious concern about the increase in excise duty for high-end motor vehicles to 100%, motorbikes with 800 cc to 75% and for SUVs for non-taxi purposes to 30%.
- An increase in the allocated fund for JNNRUM to ₹ 14,873 crore is positive for the automobile sector. What is gratifying to note is that a significant proportion of the allocation will be used to support the purchase of upto 10,000 buses, especially by the hill States.
- A reduction in excise duties from 14% to 13% on chasis of diesel motor vehicles falling under tariff heading 87060042 is another positive as it will avoid excess CENVAT credit in case of tippers and other normal load vehicles.

Instrumentation & Automation

- The announcement that MSMEs will continue to enjoy all non-tax benefits for a period of 3 years from the time they get upgraded will help the growth of instrumentation & automation companies as most of the Indian instrumentation & automation companies fall under the MSME sector.

Valves & Actuators

- Investment allowance of 15% on investments of over ₹ 100 crores in plant & machinery would spur the implementation of large process industry projects and consequently would lead to higher demand of our products. If financial restructuring of DISCOMS is done soon by the State Governments, it would enable planning of capacity addition in the state sector, leading to increased demand in power sector.

4. Recognising MSMEs as an Engine of Growth

It is well known that the MSME sector constitutes the 'spine' of the nation. The sector comprises 90 per cent of business units, contributes 45 per cent of manufacturing output, 40 per cent of exports and employs 26 million people, thereby contributing to inclusive growth of the economy. What is more, the MSME sector has weathered and overcome stiff competition in the post liberalisation period in the domestic and international arena.

However, despite its significant contribution to the Indian economy, the sector suffers from a plethora of problems such as high cost of credit, technological obsolescence, inadequate infrastructure, paucity of skills, among others which puts the MSME sector at a disadvantage. Taking cognizance of the felt need to provide an impetus to this sector, the Union Budget has made the following provisions:

- Preference Benefits (non tax) to continue for 3 years for enterprises growing for 3 years;
- Refinance SIDBI fund enhanced from ₹ 5000 crore to ₹ 10000 crore;
- A fund allocation of ₹ 500 crore for SIDBI to set-up the Factoring fund;
- ₹ 2200 crore fund allocation for setting up 15 additional Centres for R & D for MSMEs;
- Expenditure on Incubator to qualify as CSR activity – to be notified by the Ministry of Corporate Affairs;
- SME Exchange listing for Start-ups is facilitated;
- Sector specific duty reductions for Leather & Gems & jewellery.

The above measures would help MSMEs to enhance their access to bank credit as also enable them to tap alternative sources of finance such as factoring, equity markets, etc. Besides, there are allocations for R&D, setting up of tool rooms and technology development centres, incentives for setting up incubators for mentoring new businesses and sector specific duty reductions. Most significantly, the incentives to encourage MSMEs to scale up are noteworthy.

5. Infrastructure Sector

Infrastructure and power sector reforms are a priority to boost investments and provide a fillip to growth in economy and industry. While infrastructure investment has gained significant momentum over the last few years, the deficit continues to remain large. With a view to address the shortfall in infrastructure, the 12^{th} Five year plan has set a target of investing US$1 trillion over the next five years, 47% of which is to come from the private sector. However, time and cost overruns continue to pose major challenges to attracting sufficient investment in infrastructure.

The Finance Minister has given a big push to infrastructure and has proposed a number of welcome measures to boost infrastructure development in the country. Some of the key measures announced for infrastructure sector include:

- Encouraging the use of innovative and new financial instruments to increase investment in infrastructure including takeout financing and credit enhancement
- Four infrastructure debt funds have been set up and two more are on the anvil
- Allowing tax-free bonds up to ₹ 50,000 crore in 2013-14 strictly based on capacity to raise funds from the market.
- Identifying seven new cities identified along the Delhi-Mumbai industrial corridor
- Seeking assistance from multilateral agencies such as the Asian Development Bank and the World Bank to build roads in northeastern India, linking the region with neighbouring Myanmar.
- Constituting an independent regulatory authority in the roads sector to address bottlenecks including financial stress and contract management.
- Intending to award 3000 kms of roads in states including Gujarat, Rajasthan, Uttar Pradesh in the first six months of 2013-14.
- Exempting Imported ships and vessels from countervailing duty

- Proposing to establish two major ports to add 100 million tonnes of capacity
- Road regulator to be set up.
- Extension of the 80 IA benefit (tax holiday) for one year till 31st March 2014
- Equalising the duty on both steam and bituminous coal as both are used in thermal power plants.
- Introducing PPP policy framework for projects with Coal India Limited (CIL) as one of the partners to enhance domestic coal production and reduce coal imports
- Adopting a policy of blending and pooled pricing for coal.
- Urging State Governments to take advantage of the discom financial restructuring scheme and sign MoUs at the earliest.
- Lowering the cost of finance for the clean energy sector by introducing low interest bearing funds to IREDA from the National Clean Energy Fund for a period of five years.
- Introduction of Generation-based incentives for Wind Power and allocation of ₹ 8 billion to the Ministry of New and Renewable Energy for this purpose.
- Announcement of a policy to encourage exploration and production of shale gas
- Review of the natural gas pricing policy
- Clearance of stalled NELP blocks
- Operationalising the 5 million metric tonnes per annum LNG terminal at Dabhol in 2013-14.
- Two new major ports will be established in Sagar, West Bengal and in Andhra Pradesh to add 100 million tonnes of capacity.

On the policy front, a major 'breakthrough idea' is the announcement of an Independent Regulator for the roads' sector. Most of the other policy related matters which have been alluded to in the Budget are 'work in progress'. These refer to infrastructure debt funds, coal imports and pooling, gas pricing policy, infrastructure bonds, etc.

The extension of the sunset clause by another year on tax holiday to power sector investments while welcome is not sufficient. The expectation was that the extension would happen at least till March 31, 2017 i.e. the terminal year of the 12th plan. The equalization of customs duties on steam coal and bituminous coal to 2 per cent basic customs duty and 2 per cent CVD will eliminate the classification disputes.

Among the other positives include the number of interventions made and outlays provided for wind power, waste-to-energy, inland waterways, storage, rural roads, growth corridors, urban housing, renewables, MRO (aircraft maintenance and repair operations) and capital market investment instruments.

Overall, the infrastructure sector has got its fair share of attention we look forward to the policy 'work-in-progress' culminating into a fresh burst of energy all around.

6. Financial Sector

The Union Budget has struck a positive balance between the prudential regulatory & policy reforms and a focused growth oriented strategy for broad-based financial inclusion.

The Budget addresses the key challenges of the banking, insurance & pension sectors and goes a long way in strengthening the financial inclusion agenda. Among the key provisions, capital infusion in Public Sector Banks will boost the capital base and help meet the regulatory requirement while empowering insurance companies to open branches in Tier-II cities and below without prior regulatory approval. This will help to improve insurance penetration. Further, linking post offices with core banking solutions, measures aimed at enhancing the scope of Rashtriya Swasthya Bima Yojana, coverage of micro-insurance and group health insurance in rural areas, and strengthening India Microfinance Equity Fund will help pursue the objective of Financial Inclusion. Some of the other key features of the Budget which would favourably impact our industry are as under:

- The report of Government of India constituted Financial Sector Legislative Reforms Commission (FSLRC) to be presented next month.

- The Government has proposed to constitute a Standing Council of Experts in the Ministry of Finance to analyse the international competitiveness of the Indian financial sector, periodically examine the transaction costs of doing business in the Indian market, and provide inputs to Government for necessary action.

This will ensure that our fast developing financial sector becomes more robust and caters efficiently to the growing financing needs of the Indian economy within a prudent regulatory framework as per global best practices.

Given below is the snap-shot of Budget provisions and CII views on policy measures relating to the Indian financial sector under different heads:

Banking

- Compliance of public sector banks with Basel III regulations to be ensured. ₹ 14,000 crore provided in BE 2013-14 for infusing capital. CII feels this will strengthen the capital base of the banking system and will ensure the financing needs of the productive sectors of the economy are met successfully
- Proposal to set up India's first Women's Bank as a public sector bank. Provision ₹ 1,000 crore as initial capital.
- ₹ 6,000 crore to Rural Housing Fund in 2013-14.
- National Housing Bank to set up Urban Housing Fund. ₹ 2,000 crore to be provided to the fund in 2013-14.
- The steps towards Financial Inclusion by extending deployment of Core Banking Solution and e-payments to all banks including Cooperative Banks and Regional Rural Banks by end of 2013 will further give impetus to IT Industry. The decision on mandatory setting up of ATMs by all banks by 2014 is also a welcome step towards using IT.
- IT driven projects to Modernize India's Postal Network with ₹ 4909 crore fund and additional budget of ₹ 32 crore for the project for deploying Core Banking Solution and offering real time banking services is a welcome step.

Insurance

- A multi-pronged approach to increase the penetration of insurance, both life and general, in the country.
- Number of proposals finalised, in consultation with IRDA such as empowering insurance companies to open branches in Tier-II cities and below without prior approval of IRDA
- KYC of banks to be sufficient to acquire insurance policies, banks to be permitted to act as insurance brokers.
- Banking correspondent allowed to sell micro-insurance products.
- Achieving the goal of having an LIC office and an office of at least one public sector general insurance company in towns with population of 10,000 or more.

- Group insurance products will now be offered to homogenous groups such as SHGs, domestic workers associations, anganwadi workers, teachers in schools, nurses in hospitals etc.

CII welcomes these proposals as these will be crucial in implementing and fulfilling the larger agenda of financial inclusion and financial risk mitigation across the cross section of the population.

- Rashtriya Swasthya Bima Yojana (RSBY) to be extended to other categories such as rickshaw, auto-rickshaw and taxi drivers, sanitation workers, rag pickers and mine workers. CII believes that this is a welcome move as this will give basic health care access to a bigger section of otherwise unorganized and vulnerable segment of the society.
- A comprehensive social security package to be evolved for the unorganised sector by facilitating convergence among different schemes. CII feels that it will be easier to efficiently monitor one comprehensive scheme than multiple fragmented ones and will give comprehensive benefits to the poor under one umbrella.

Financial Inclusion

- All scheduled commercial banks and all regional rural banks (RRBs) are on core banking solution (CBS) and on the electronic payment systems (NEFT and RTGS). Ministry of Finance is working with RBI and NABARD to bring all other banks, including some cooperative banks, on CBS and e-payment systems by the end of the current year.

- All branches of public sector banks to have ATM by March 31, 2014.

- Another sum of ₹ 100 crore provided to India Microfinance Equity Fund of SIDBI. CII feels that it is a small yet decisive step to rejuvenate the Microfinance space which has suffered a jolt since 2010.

Post Offices

- An ambitious IT driven project to modernise the postal network at a cost of ₹ 4,909 crore. Post offices to become part of the core banking solution and offer real time banking services. Such a measure when implemented efficiently, will bridge the gaps in financial inclusion existing within the unbanked areas.

Savings

- Additional deduction of interest upto ₹ 1 lakh for a person taking first home loan upto ₹ 25 lakh during the period from April 2013 to March 2014.This will increase the demand for home loans and will help the real estate and construction industry.

- In consultation with RBI, instruments protecting savings from inflation to be introduced. This is a welcome initiative which may contribute immensely in helping Indians to plan financial security for their old age with minimum risk of capital erosion due to inflation.

7. Capital Market

Restoring the capital market as the centre for capital formation is undeniably one of the key imperatives for fueling nation's economic growth. Recognising this, the budget proposes the following measures aimed at channelizing domestic savings into financial instruments and deepening the capital market:

- Allowing Investment in Rajiv Gandhi Equity Savings Scheme for an investor with an annual income of ₹ 12 Lakh (limit raised from ₹ 10 Lakh) will widen the scope and attract more investors to the scheme. The Government's decision to extend tax benefits for 3 successive years, instead of 1 year, will also help in channelizing domestic savings into financial instruments and increase retail participation in the equity market.

- The Government in consultation with RBI will introduce new instruments that will protect savings of investors from inflation. Inflation-indexed national saving certificates / bonds will generate inflation adjusted real returns with sovereign guarantee for investors.
- Simplified and converged KYC norms for FIIs/ sub-accounts of FIIs/ QFIs would help Indian market attract more foreign investment. Designated Depository Participants would be able to register these portfolio investors following uniform registration norms, to be issued by SEBI.
- Clarity has been provided in determination of FII versus FDI flow by proposing to follow the international practice that a stake of 10 per cent or less in a company would be treated as FII and a stake of more than 10 per cent, would be treated as FDI. A committee to analyse the application of this principle would be constituted.
- FIIs would now be allowed to make investments in currency derivatives to the extent of their rupee exposure. Their investments in corporate bonds and Government Securities have been permitted to be used as collateral towards meeting their margin requirements.
- Angel investor pools to be allowed pass-through benefits hitherto available to Category 1 AIFs venture capital funds. This is subject to compliance with requirements which will be laid down by SEBI. This bodes well for the cash starved start-ups and would encourage entrepreneurship and innovation
- To strengthen the debt-market segment, Government will allow stock exchanges to introduce a dedicated debt segment. Insurance, provident funds, pension funds can now trade directly in debt instruments. India Infrastructure Finance Corporation Ltd (IIFCL), in partnership with the Asian Development Bank, will offer credit enhancement to infrastructure companies that wish to access the bond market to tap long term funds.
- To strengthen the capital market, government will also allow Pension Funds to invest in ETFs, debt mutual funds and asset backed securities.
- MF distributors can register themselves as members of the Stock Exchanges which will allow the stock exchange network to improve their reach and distribution.
- Reduction of STT in equity futures: from 0.017 to 0.01%, Mutual Funds/ETF redemptions from 0.25 to 0.001% and MF/ETF purchase/sale on exchanges: from 0.1 to 0.001%, only on the seller is a welcome step proposed to attract more investors.

Other Announcements:

- Introduction of Commodity Transaction Tax (CTT) equal to equity futures (0.01%) could impact non-agriculture commodity transactions adversely. But a positive announcement is that trading in commodity derivatives will not be treated as speculative transactions and will be recognised as hedging transactions. If included under business income, losses in derivative trading would be allowed to be set-off against business profits. The upside is that henceforth these transactions would now be taxed at lower income tax rate (as applicable to business income against speculative income).

- Eligible investments for CSR - Investments Funds provided by corporates to business incubators located in academic institutes will be considered as part of their CSR obligation (2% of 3 years' average net profits) under the proposed Companies Bill. Ministry of Corporate Affairs will notify that funds provided to technology incubators located within academic institutions and approved by the Ministry of Science and Technology or Ministry of MSME will qualify as CSR expenditure. This would boost entrepreneurial initiatives.

- Listing of SMEs without IPOs - In another boost to SME sector, Small and medium enterprises, including start-up companies, will be permitted to list on the SME exchange without being required to make an initial public offer (IPO). The issue will be restricted to informed investors. This will be in addition to the existing SME platform in which listing can be done through an IPO and with wider investor participation.

8. Agriculture

It is recognized that invigorating reforms in the agriculture sector is crucial for achieving inclusive growth for our country at a time when 60 per cent of our population depends on agriculture for its livelihood. However, growth in the agriculture sector has remained below the bench mark rate of 4% per annum. The supply side bottlenecks in the agriculture sector have resulted in widening the demand – supply gaps in agriculture and subsequently triggered food inflation to unsustainable levels in the past couple of years, which in turn has been putting pressure on WPI inflation.

With a view to provide a boost to agriculture production and promote inclusive growth, the Budget 2013-14 has proposed the following initiatives:

- Allocation of ₹ 27049 crore for agriculture in 2013-14 (an increase of 22% over RE of current year) of which ₹ 3415 crore is for research.
- Agriculture Credit: An allocation of ₹ 7 lakh crore fixed for agriculture credit for 2013-14 compared to ₹ 5.75 lakh crore in the current year.
- Interest subvention scheme to continue and farmers repaying loan in time to get loan at 4%. Farmers borrowing crop loans from private banks will also be eligible for interest subvention scheme.
- Bringing Green Revolution to Eastern India to continue – allocation ₹ 1000 crore
- Fund allocation of ₹ 500 crore for crop diversification programme to promote technological innovation and encourage farmers to choose crop alternatives.
- Farmer Producer Organizations – Matching equity grants to registered FPOs upto ₹ 10 lakh per FPO to leverage working capital available upto ₹ 50 crore besides credit from financial institutions. An additional credit guarantee fund with initial corpus of ₹ 100 crore with SFAC. State Government to support through necessary amendments in APMC.
- National Livestock Mission to be launched with ₹ 307 crore to augment availability of feed and fodder, among other things.
- Allocations increased for the following: RKVY allocated ₹ 9954 crore; Food Security Mission allocated ₹ 250 crore; Integrated Watershed Program allocated ₹ 5387 crore in budget 2013-14.
- Agricultural Credit-Interest subvention scheme for short-term crop loans to be continued, scheme extended for crop loans borrowed from private sector scheduled commercial banks. CII believes that this would ensure adequate flow of funds to the agriculture sector and will help private sector banks to meet priority sector lending targets. However, this could add further stress to the deteriorating asset quality of the private sector banks.
- Pilot project on micro nutrient rich crops – Nutri Farms to be initiated with initial allocation of ₹ 200 crore in line with the objective of addressing the nutritional challenges.
- National Institute for Biotic Stress Management to be established at Raipur, Chhattisgarh; National Institute for Biotechnology to be established at Ranchi, Jharkhand.

The 2013-14 budget announcements for agriculture and allied sectors (22% increase over RE 2012-13) are very inspiring and clearly indicates that the government is on the right track in achieving higher inclusive growth.

While the government continues with the allocation of ₹ 1,000 crore for the eastern states in taking ahead the Green Revolution, it has significantly stepped up allocations across programs like the

RKVY (₹ 9,954 crore), NFSM (₹ 2,250 crore) and the Integrated Watershed Program (₹ 5,387 crore). The new program on promoting crop diversification supported by ₹ 500 crore allocation is a very welcome step towards promoting technological innovation and ensuring sustainable agricultural practices. However, this may not be enough (looking at states of Punjab and Haryana and what it would take to diversify out of grains) and more funds will be required in due course of time.

The increased target of agricultural credit of ₹ 7 lakh crore for 2013-14 (from ₹ 5.75 lakh crore in 2012-13) and the interest subvention scheme extended for crop loans taken from private sector scheduled commercial banks will be helpful to the farmers. Given the importance of livestock in the agriculture and allied sector and it being a major source of livelihood for small and marginal farmers, the setting up of the National Livestock Mission with a provision of ₹ 307 crore is again heartening.

It will be worthwhile for the government to move forward on the Agriculture Renewal Mission that aims at coordinating all the efforts in terms of enhancing allocations and rolling out new initiatives to be able to strategically steer the sector onto a higher growth trajectory, link farmers to the industry and market at large and also attracting private participation and investments in agriculture.

9. Social Sector

There has been a holistic attempt to uplift the marginalized and the vulnerable section of the population in the Budget. By providing opportunities for livelihood creation, better provision of healthcare facilities, drinking water and sanitation and development of the rural sector as a whole, the government has ensured that the growth process remains inclusive. The thrust of the announcements has been on convergence towards delivering of social sector schemes and focused targeting of the beneficiary groups.

The following are the key proposals of the Budget on the social sector:

Women

- ₹ 97,134 crore allocated for programmes relating to women.
- ₹ 1,000 crore allocation towards setting up of India's first Women's public sector Bank. This will promote self employment among women. This is a very important tool expected to have major impact in addressing gender discrimination and catalyzing participation of women in the mainstream economic process.
- A fund - "Nirbhaya Fund" - to be setup with Government contribution of ₹ 1,000 crore. The move will address safety and security of women. Depending on how this fund is utilized, this is expected to help in nation's capacity building in order to reduce violence among women and strengthen services and support system for victims of sexual assault and domestic violence.
- Ministry of Women and Child Development to design schemes that will address the concerns of women belonging to the most vulnerable groups, including single women and widows. An additional sum of ₹ 200 crore proposed to be provided to the Ministry to begin work. Good initiative in addressing a sector which is highly vulnerable and under represented for long.
- ₹ 5,284 crore has been allocated to Ministries/Departments in 2013-14 for scholarships to students belonging to SC, ST, OBC, Minorities and girl children. The initiative will enable balanced development of population through specific targeted interventions

Persons with Disability (PwD)

- A sum of ₹ 110 crore to the Department of Disability Affairs for ADIP scheme in 2013-14 against RE 2012-13 of ₹ 75 crore. ADIP Scheme provides for Assistance to Disable Persons for purchase/fitting of aids/appliances. This will bring aids and appliances within the reach of PwD and bring about an improvement in the quality of life of the disabled by providing them with opportunities for leading functionally productive lives.

Rural Development

- Allocation of ₹ 80,194 crore in 2013-14 for Ministry of Rural Development. This has marked an increase of 46% over RE 2012-13.
- Proposal to carve out PMGSY-II and allocate a portion of the funds to the new programme that will benefit States such as Andhra Pradesh, Haryana, Karnataka, Maharashtra, Punjab and Rajasthan.

Public Health

- Total Allocation to healthcare stands at ₹ 37,330 crore

  - Allocation under the National Health Mission pegged at ₹ 21, 239 crore

  - Medical education pegged at ₹ 4, 727 crore

  - Healthcare for Elderly (Geriatric Healthcare) has been given allocation to the tune of ₹ 150 crore

  - ₹ 1, 650 crore allocated for improving the infrastructure facility for AIIMS like- institutions

  - ₹ 13, 215 crore allocated for investment in Mid Day Meal (MDM) scheme and ₹ 15, 850 crore for ICDS

  - ₹ 15, 260 crore allocated for Drinking water and Sanitation

Great emphasis on public health has been provided in the budget. Convergence effort in National Health Mission will provide accessibility to healthcare for the rural and urban poor. There are also opportunities for private sectors to engage with National Health Mission through public & private partnerships (PPPs). Quality of human Resource in healthcare sector will be enhanced and more human resource in healthcare will be available. It is an incentive for the nation to set up domestic R&D in health sector. The senior citizens who cannot afford health care will have access to geriatric care.

Mainstreaming of Siddha, Ayurveda, Unani and Homeopathy through National Health Mission is a good move. The traditional Indian medicine will be continued and sustained in the healthcare system and can also emerge as a vibrant service export sector. There is an opportunity for the rural and urban people to choose the treatment they want to go through. Decentralizing the healthcare delivery system by providing the dual benefit of availability of Human Resources and tertiary care at the grass-root level will impact accessibility to healthcare. Further, improving the mother and child health with supplementary food will reduce the mortality rate.

Convergence

- The present schemes such as AABY, JSBY, RSBY, JSY and IGMSY are run by different ministries and departments.

- Budget Proposes to facilitate convergence among the various stakeholder ministries/departments so a comprehensive social security package can be developed. The package should include life-cum-disability cover, health cover, maternity assistance and pension benefits.

- A comprehensive and integrated social security package for the unorganized sector will help in better delivery of the entitlements to the acutely marginalized segments of the population.

Chapter 3
Fiscal Trends

Chapter 3

Fiscal Trends

Fiscal Consolidation gets Priority in Budget 2013-14

- Post the global financial crisis in 2008-09, the fiscal deficit has seen a sharp rise, with the average deficit standing at 5.6 per cent of GDP for the five year period from 2008-09 to 2012-13. Indeed, the impact of economic growth cycles has found a reflection in the continuously deteriorating fiscal health of the government with downturns raising deficits and recoveries reducing them (Figure 1). The only exception would be the years 2009-10 and 2010-11 which along with witnessing robust average growth of 9.0 per cent saw average fiscal deficit at 5.6 per cent of GDP due to the fiscal stimulus doled out by the government.

- The fiscal deficit of the central government for 2012-13 has now been re-estimated at 5.2 per cent of GDP as compared to the budgeted estimate of 5.1 per cent. Though the actual number has overshot the budgeted levels, it needs to be kept in mind that the extent of breach has been significantly lower than what was initially expected thanks to the slew of measures announced by the government in the second-half of 2012-13 in order to rein in the deficit. For 2012-13, fiscal deficit, in absolute terms is only 1 per cent higher than in 2011-12 and 1.4 per cent higher than the budgeted figure. The extent of breach in 2012-13 from the budgeted levels was significantly lower mainly due to contraction of 4 per cent in total expenditure growth led by a decline of 17.6 per cent in plan expenditure. To be sure, total receipts growth also declined in 2012-13 from the budgeted levels underpinned by a 21 per cent reduction in non-tax revenue.

- The budget for 2013-14 clearly begins the process of fiscal consolidation by targeting fiscal deficit at 4.8 per cent of GDP. Given only a marginal rise envisaged in fiscal deficit levels in 2013-14 in absolute terms as compared to revised estimates in 2012-13, net market borrowings have been pegged only marginally higher at ₹ 4,84,000 crore in 2013-14 compared to revised estimates of ₹ 4,67,384 crore in the previous year. The budget has also announced some innovative steps to augment its revenue stream like imposing a surcharge of 10 per cent on persons whose taxable income exceed ₹ 1 crore, increasing surcharge on domestic companies whose taxable income exceeds ₹ 10 crore amongst other measures.

- Tax revenues are linearly related to economic activity. Empirical evidence from India clearly reveals that government revenues plummet during downturns and spike up during upturns. In the coming fiscal, we expect some improvement in the growth prospects, propelled by pick-up in investment and consumption demand, which will in turn provide a fillip to the tax collections for the government. The only downside risk to the fiscal target is the possibility of slippages on the subsidy front which is envisaged to contract by 10.3 per cent in 2013-14 as compared to the revised estimate of 2012-13.

Figure 1: Fiscal Deficit & GDP Growth

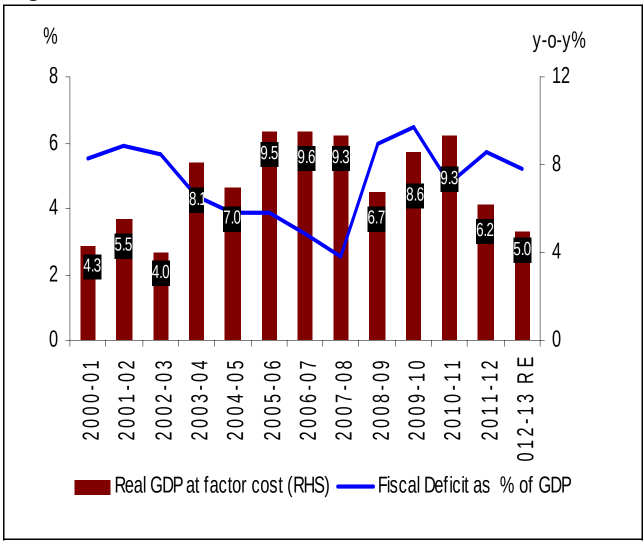
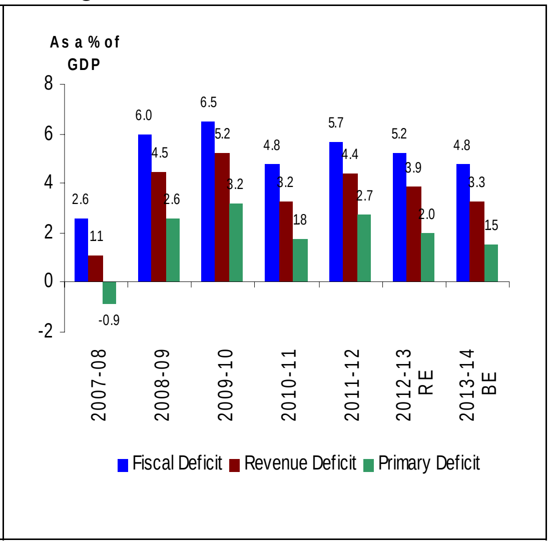


Figure 2: Trend in Deficits



Source: Union Budget 2013-14 & CSO

Note: BE- Budget Estimates, RE – Revised Estimates

- The following table presents the key budgetary arithmetic for 2013-14. One of the notable features here is that primary balance (fiscal deficit less interest payments) which was in surplus and turned into deficit in 2008-09 continues to be in the red in 2013-14 for the sixth consecutive year. This has serious implications for the fiscal health of the government as primary balance is regarded as a key indicator of long-run fiscal sustainability.

Table 1: Budget at a Glance 2013-14

(₹ crore)	2011-12	2012-13	2012-13	2013-14
	Actuals	BE	RE	BE
1. Revenue Receipts	**751437**	**935685**	**871828**	**1056331**
2. Tax Revenue (net to centre)	629765	771071	742115	884078
3. Non-Tax Revenue	121672	164614	129713	172252
4. Capital Receipts (5+6+7)	**552928**	**555241**	**558998**	**608967**
5. Recoveries of Loans	18850	11650	14073	10654
6. Other Receipts	18088	30000	24000	55814
7. Borrowings and other liabilities	515990	513590	520925	542499
8. Total Receipts (1+4)	**1304365**	**1490925**	**1430825**	**1665297**
9. Non-Plan Expenditure	**891990**	**969900**	**1001638**	**1109975**
10. On Revenue Account, of which	812049	865596	919699	992908
11. Interest Payments	273150	319759	316674	370684
12. On Capital Account	79941	104304	81939	117067
13. Plan Expenditure	**412375**	**521025**	**429187**	**555322**
14. On Revenue Account	333737	420513	343373	443260
15. On Capital Account	78639	100512	85814	112062
16. Total Expenditure	**1304365**	**1490925**	**1430825**	**1665297**
17. Revenue Expenditure	1145785	1286109	1263072	1436169
18. Capital Expenditure	158580	204816	167753	229129
19. Revenue Deficit	**394348**	**350424**	**391245**	**379838**
As a percentage of GDP	4.4	3.4	3.9	3.3
20. Fiscal Deficit	**515990**	**513590**	**520925**	**542499**
As a percentage of GDP	5.7	5.1	5.2	4.8
21. Primary Deficit	**242840**	**193831**	**204251**	**171814**
As a percentage of GDP	2.7	1.9	2.0	1.5

Source: Union Budget 2013-14

The Revenue Arithmetic

- The economic downturn particularly the weak industrial performance has dented government revenues quite severely. Total receipts declined by 4 per cent in 2012-13 as compared to the budget estimates underpinned by 21 per cent contraction in non-tax revenue due to shortfall from 2G spectrum sale and 3.7 per cent decline in gross tax revenue. Under gross tax revenue, corporation tax growth contracted by 3.8 per cent, while excise and customs duty growth also contracted, albeit by a larger clip as per revised estimates of 2012-13 over the budgeted estimates. Sluggish macroeconomic growth, global headwinds and lower corporate profitability have all resulted in muted tax collections in 2012-13. However, it needs to be noted that revenue receipts grew by 16 per cent in 2012-13 over 2011-12.

- The budget assumes a nominal growth of 21.2 per cent in gross revenues in 2013-14 over a moderate growth of 16.0 per cent in 2012-13. This shifts the tax/GDP ratio from 10.4 per cent in 2012-13 to 10.9 per cent in 2013-14. The budget 2013-14 makes a mention of the intention of government to roll-out the goods & services tax (GST) in the coming months, which is expected to increase compliance and hence help in pushing the tax/GDP ratio to pre-crisis levels of 11.9 per cent (achieved in 2007-08). Table 2 documents the growth of major components of receipts in 2012-13 and expectation in 2013-14. One important change in the structure of tax revenues in the last couple of years has been the emergence of corporate taxes as the single largest component of overall tax collections since 2006-07. Prior to that, union excise duty was the single biggest source of tax revenue for the government. Since the last one decade, the service tax contribution to the government's corpus had been increasing steadily. In 2013-14, too it is budgeted to grow by 35.8 per cent over the revised estimates of 2012-13. Also, now direct tax collections have overtaken indirect tax collections in their contribution to the entire tax kitty.

- Under revenue receipts, the budget 2013-14 assumes a relatively healthy growth of 19.1 per cent in tax receipts as compared to 16.7 per cent in 2012-13. In 2013-14, corporate and income tax collections are budgeted to grow by 16.9 and 20.2 per cent respectively over the revised estimates of 2012-13. The budget 2013-14 also introduced a surcharge of 10 per cent on persons earning above ₹ 1 crore, which is expected to augment the revenue receipts of the government during the next fiscal. CII is happy to note that the tax rates of the major indirect taxes have been kept unchanged in the budget 2013-14. Amongst the indirect taxes, service tax is expected to retain its robust growth in 2013-14 too, while union excise duty growth is expected to decelerate. Growth has a direct impact on the amount of tax collected, which is best expressed as 'tax buoyancy' (see Box I). Tax buoyancy is a measure of the responsiveness of tax receipts with respect to GDP. A tax is buoyant when revenues increase by more than 1 per cent for a 1 per cent increase in GDP. However, as we will observe from box I, there have been episodes where the relationship between the two has been non-linear. Based on the budgeted estimates for gross tax revenue and nominal GDP (assumed at 13.4 per cent in the budget), overall tax buoyancy is expected to remain stable at 1.42 in 2013-14.

- Non-tax revenue receipts are expected to grow by 32.8 per cent in 2013-14 as compared to a paltry growth of 6.6 per cent in 2012-13. Non tax revenue was hit by atleast ₹ 30,000 crore on account of lower realisation from 2G spectrum in 2012-13. Capital receipts are budgeted to increase by 7.9 per cent in 2013-14, with the government targeting to garner ₹ 40,000 crore from disinvestment in public sector units (PSUs) and another ₹ 14,000 crore from disinvestment of stake in non-government companies. This is higher than the revised ₹ 24,000 crore (as compared to budgeted ₹ 30,000 crore) of disinvestment achieved by the government in 2012-13.

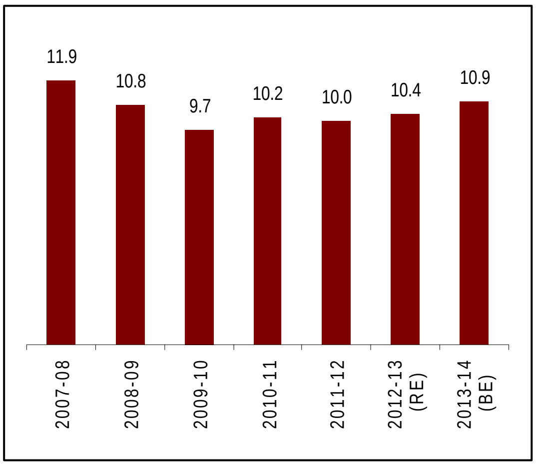
- In sum, the government is targeting total receipts growth at 16.4 per cent in 2013-14, which is higher than 9.7 per cent growth achieved in 2012-13. Disinvestment proceeds budgeted at ₹ 56,000 crore though are estimated to contribute only about 3.2 per cent to the total receipts in 2013-14, rest of the augmentation in receipts is expected to come from rise in gross tax and non-tax revenue.

Table 2: Growth in Government Receipts (%)

	2012-13 (RE) over 2011-12	2013-14 (BE) over 2012-13 (RE)
Revenue Receipts	16.0	21.2
-Tax Revenue	16.7	19.1
Corporate Tax	11.2	16.9
Income Tax	21.0	20.2
Customs Duty	10.4	13.6
Union Excise Duties	18.1	14.9
Service Tax	36.1	35.8
- Non-Tax Revenue	6.6	32.8
Capital Receipts	-0.8	7.9
- Non-Debt Receipts	3.1	74.6
- Debt Receipts	-1.1	3.1
Total Receipts	9.7	16.4

Source: Union Budget 2013-14 & CSO

Figure 3: Tax/GDP Ratio



Box I: Economic Downturn and Tax Buoyancy

Higher economic growth, especially if that is propelled by industrial growth, leads to an increase in tax collections for the government. Whether the higher growth is translating into adequately high tax revenue is measured by tax buoyancy. This is expressed as ‘percentage change in tax revenues per unit percentage change in tax-base. When tax-buoyancy is greater than one, it implies that the growth in tax collection has surpassed the growth in GDP. Table 3 brings home the point. The average real GDP growth in phase-I (i.e., 2001-02 to 2002-03) was 4.8 per cent; followed by 8.7 per cent growth in phase-II (i.e., 2003-04 to 2007-08). However, during 2008-09 growth has slipped to 6.7 per cent due to poor industry and agriculture performance, only to recover in 2009-10. The last few years starting from 2010-11 have witnessed lacklustre growth underpinned by both domestic and external factors. As per the advance estimates for 2012-13, growth is expected to slump to a decadal low of 5.0 per cent.

A cursory look at the table shows that gross tax buoyancy is higher during the high-growth phase and vice-versa. Income tax buoyancy has moved in line with the GDP growth rate, whereas corporate income tax has remained buoyant even when growth has remained subdued. Indirect taxes on the other hand have reflected the one-to-one relationship between taxes and growth more sharply except for the period 2010-11 to 2011-12 when the buoyancy remained robust mainly due to increase in indirect tax rates announced in the budget. In other time periods, during episodes of low growth and downturn, customs and excise buoyancy has remained low. 2009-10 was an exception as it saw a reduction in customs, excise and service tax rates which led to lower buoyancy in that year. In contrast, service tax buoyancy has bucked the trend during periods of slow growth too except in 2009-10. Tax collections increase more than proportionately with respect to the base (GDP) in an economic upturn and decline more than proportionately in a downturn.

Table 3: Tax Buoyancy in Different Growth Phases

			Tax Buoyancy				
	GDP growth	Overall Tax Buoyancy	Direct Tax		Indirect Tax		
			Corporate tax	Income tax	Customs	Excise	Service tax
2001-02 to 2002-03	4.8	0.9	1.3	0.7	-0.2	1.1	2.1
2003-04 to 2007-08	8.7	2.6	2.2	1.5	1.2	0.6	4.4
2008-09	6.7	0.2	0.6	0.2	-0.3	-0.9	1.1
2009-10	8.4	0.2	1.0	1.7	-1.1	-0.4	-0.3
2010-11 to 2011-12	6.2	1.1	0.8	0.8	1.8	1.1	1.5
2012-13	5.0	1.4	0.8	1.6	0.9	1.7	2.5

Source: CII estimates
Note: Tax Buoyancy = Incremental Tax/ Incremental GDP

The Expenditure Arithmetic

- According to the revised estimates of 2012-13, total expenditure is estimated to record an annual growth of 9.7 per cent against the originally budgeted growth of 14.3 per cent over 2011-12 (RE). As against an envisaged moderation to the tune of 8.7 per cent in non plan expenditure, in 2012-13 the growth has been revised up sharply to 12.3 per cent. This is largely on account of higher outgo towards subsidy payment. The government had to shell out an additional ₹ 67,639 crore on subsidy payments over and above ₹ 19,00,15 crore estimated in Budget 2012-13. Subsidy outgo rose by 18.2 per cent in 2012-13 as compared to a budgeted contraction to the tune of 12.8 per cent. Under subsides, the biggest breach came on the petroleum subsides front, as it grew by 41.5 per cent in 2012-13 as compared to a decline budgeted to the tune of 36.4 per cent. Plan expenditure grew at 4.1 per cent in 2012-13 as compared to revised estimates of 2011-12.

- The centre's expenditure is budgeted to grow by 16.4 per cent in 2013-14 as compared to 9.7 per cent in 2012-13. Expenditure to GDP ratio is expected to only marginally increase in 2013-14 as compared to the last fiscal. Non-plan expenditure growth is expected to rise by 10.8 per cent in 2013-14 underpinned by 43 per cent growth in non-plan capital expenditure. In 2013-14, the budget envisages subsidies to reach upto 2 per cent of GDP. Under various sub-headings of subsides, petroleum subsidy is expected to be 33 per cent lower in 2013-14 as compared to the revised estimates of 2012-13, due to less requirement of compensation to oil companies for under-recoveries in the wake of movement to market linked prices of diesel. Food subsidy has the highest outgo of ₹ 9,00,00 crore in 2013-14 mainly due to the provision made towards National Food Security, while fertiliser subsidy outgo has remained almost unchanged.

- Though it will be interesting to see if the subsidy targets are adhered to in 2013-14, admittedly the Finance Minister has deftly handled the issue of doling out of subsides by adopting a prudent approach. This intent of the government will receive a fillip in the next fiscal year due to the expectations of a better targeting and monitoring of subsides using UID and direct benefit transfer (DBT) of subsidies to the beneficiaries.

- Plan expenditure is budgeted to rise by 29.4 per cent in 2013-14, led by increase in both plan revenue and capital components. Plan revenue expenditure is expected to grow by 29.1 per cent whereas plan capital expenditure would register a growth of 30.6 per cent in 2013-14. Though, the fiscal deficit as a per cent of GDP is budgeted to moderate in 2013-14 underpinned by a moderation in non-plan expenditure, the nature of expenditure compression needs to be kept in mind. Capital expenditure needs to be kept robust in order to revive the sagging investor sentiments while aiming for a compression on the revenue front. Encouragingly, in 2013-14, capital expenditure is budgeted to grow at 36.6 per cent as compared to 13.7 per cent growth in the revenue expenditure. However, the share of revenue expenditure in total expenditure is still dominant as compared to that of capital expenditure.

Figure 4: Expenditure of Government

	2012-13 (RE) over 2011-12	2013-14 (BE) over 2012-13 (RE)
NON-PLAN EXPENDITURE	12.3	10.8
Revenue Account	13.3	8.0
Capital Account	2.5	42.9
PLAN EXPENDITURE	4.1	29.4
On Revenue Account	2.9	29.1
On Capital Account	9.1	30.6
Total Capital Expenditure	5.8	36.6
Total Revenue Expenditure	10.2	13.7
Total Expenditure	9.7	16.4

Figure 5: Subsidy Expenditure

	2012-13 (RE) over 2011-12	2013-14 (BE) over 2012-13 (RE)
Food Subsidy	16.7	5.9
Fertilizer Subsidy	-5.8	0.0
Petroleum Subsidy	41.5	-32.9
Other Subsidies	51.6	-14.0
Total Subsides	18.2	-10.3

Source: Budget 2013-14

Summing up

- To lower the fiscal deficit to 4.8 per cent of GDP in 2013-14, the government is betting on revenue growth of 21.2 per cent and expenditure growth of 16.4 per cent compared to the revised estimates for the current year. With the government's revenue collection falling below the budgeted revenue in four of the past five years, including the current fiscal year, the revenue targets for 2013-14 looks ambitious. As per the fiscal consolidation plan laid by the government, the fiscal deficit of 4.8 per cent in 2013-14 is envisaged to be reduced by 0.6 per cent every year in order to achieve 3.0 per cent target by end of the 12th plan period, viz 2016-17.

- In alignment with the CII recommendations, the budget 2013-14 refrained from announcing any increase in any of the indirect tax rates which is important in the current milieu of slow industrial growth. The budget has also indicated the implementation of GST going forward, which we feel is a hugely positive measure for the revival of the industry. According to our estimates, implementation of GST is expected to increase the GDP growth by 1-1.5 per cent annually by way of simplifying compliance, enhancing free flow of goods and services across states and adding to the competiveness of manufactured products.

Chapter 4
Direct Taxes

Chapter 4

Direct Taxes

1. Rates of Income Tax:

A. No revision of income tax rates / slabs;

B. Additional surcharge levy to be in force for one year that is FY 2013-14

Person	Income	Existing Surcharge rate	Proposed surcharge rate for FY 2013-14
Domestic companies	> 1 crore but below 10 crore	5%	5%
	> 10 crore per year	5%	10%
Foreign companies	> 1 crore but below 10 crore	2%	2%
	> 10 crore per year	2%	5%
Individuals/ HUF and others	> 1 crore per year	Nil	10%

- In view of the above, the effective tax rate for a domestic company will be 33.99% with income over INR100mn. Effective rate of MAT for domestic companies, having book profit of over INR100Mn will be 21%;

- Increase in effective tax rate by 2.30% for Foreign Companies;

- Education cess and secondary education cess to continue at the current rates of 2% and 1% respectively;

2. Personal Income Tax

A. Raising the limit of percentage of eligible premium for life insurance policies of persons with disability or disease

- Sum received by way of bonus under an insurance policy issued on or after 01.04.2013 for the insurance on the life of any person with disability or a person with severe disability shall be exempt so long as the premium during the term of the policy does not exceed 15% of the actual capital sum assured.

B. Deduction in respect of interest on loan sanctioned during financial year 2013-14 for acquiring residential house property

- Under the existing provisions, a deduction of ₹ 1,50,000 is available in respect of housing loans. Keeping in view the need for affordable housing, an additional benefit for first-home buyers is proposed to be provided by providing deduction of ₹ 1,00,000 in respect of interest on loan taken for residential house from financial institution upto ₹ 25,00,000.

- In a case where the interest payable is less than 1 lakh rupees, the balance amount shall be allowed in the subsequent year.

C. Deduction for contribution to Health Schemes similar to CGHS

- Deduction extended to any payment or contribution made by the assessee to such other health scheme as may be notified by the Central Government.

D. Tax Credit

- Tax credit of ₹ 2000 to every person whose income is upto ₹ 500,000. This implies that their total tax payable will get reduced by ₹ 2000.

E. Donation to National Children's Fund

It is proposed to allow hundred per cent deduction in respect of any sum paid to National Children's Fund in computing the total income of an assessee.

3. Corporate Tax

A. Commodities Transaction Tax

- Commodities Transaction Tax (CTT) is proposed to be levied on taxable commodities transactions on non-agriculture futures contracts at 0.01%, entered into in a recognised association.

- Amount of CTT paid will be allowed as deduction while computing taxable income.

B. Incentive for acquisition and installation of new plant or machinery by manufacturing company

- To encourage substantial investment in plant and machinery, it is proposed to insert provisions for manufacturing companies to avail deduction of 15% on plant and machinery acquired and installed exceeding ₹ 100 crore during the period 2013 to 2015. This deduction will be in addition to depreciation which would be otherwise available. Further, the plant and machinery acquired cannot be disposed off for a period of 5 years.

C. Extension of the sunset date under section 80IA for the power sector

- With a view to provide further time to the undertakings to commence the eligible activity to avail the tax incentive, it is proposed to amend the above provisions so as to extend the terminal date of 31st March, 2013 by a further period of one year i.e. up to 31st March, 2014.

D. Lower rate of tax on dividends received from foreign companies to continue and cascading effect sought to be removed

- Lower rate of 15% tax applicable on foreign dividends repatriated by specified foreign company to continue.

- It is proposed that where tax on dividends is received from the foreign subsidiary by the holding domestic company, any dividend distributed by the holding company in the same year, to the extent of such dividends, shall not be subject to further DDT.

E. Concessional rate of withholding tax on interest in case of certain rupee denominated long-term infrastructure bonds

- In order to facilitate subscription by a non-resident in the long term infrastructure bonds issued by an Indian company in India (rupee denominated bond), it is proposed to provide that where a non-resident deposits foreign currency in a designated bank account and such money as converted in rupees is utilised for subscription to a long-term infrastructure bond issue of an Indian company, then, the borrowing by the company shall be deemed to be in foreign currency and the benefit of reduced rate of tax withholding of 5% on interest will be available to such non-resident in respect of the interest income arising on such subscription

F. In respect of application of ceased assets, it is sought to clarify that application of ceased assets against existing liability, does not include application against any advance tax liability,

G. Return of income Filed without payment of Self assessment tax will be treated as defective return

H. Taxation of Securitisation Trusts

- In order to facilitate the securitisation process, it is proposed to provide a special taxation regime in respect of taxation of income of securitisation entities, set up as a trust, from the activity of securitisation.

I. Exemption to income of Investor Protection Fund of depositories

- Income, by way of contribution from a depository, of the Investor Protection Fund set up by the depository in accordance with the regulations prescribed by SEBI will not be included while computing the total income subject to same conditions as are applicable in respect of exemption to an Investor Protection Fund set up by recognised stock exchanges. However, where any amount standing to the credit of the fund and not charged to income-tax during any previous year is shared wholly or partly with a depository, the amount so shared shall be deemed to be the income of the previous year in which such amount is shared.

J. Enabling provisions introduced for Filing of wealth Tax Returns

K. Keyman Insurance Policy assigned to any person during its terms with, or without consideration, shall not be eligible for exemption,

L. Rationalisation of tax on distributed income by the Infra Fund / Other Funds

- In case of an Infrastructure debt fund (IDF) set up as a NBFC, the interest payment made by the fund to a non-resident investor is taxable at a concessional rate of 5%. However, in case of distribution of income by an IDF set up as a Mutual Fund, the distribution tax is levied at the rates described above in the case of a Mutual Fund. In order to bring parity in taxation of income from investment made by a non-resident Investor in an IDF, whether set up as a IDF-NBFC or IDF-MF, it is proposed to provide that tax @ 5% on income distributed shall be payable in respect of income distributed by a Mutual Fund under an IDF scheme to a non-resident Investor.

- Rate of Distribution by Funds other than equity oriented funds increased from 12.50% to 25% in all cases including to individuals and HUFs. Earlier the rate of distribution for individuals and HUFs was 12.50%,

M. Pass through Status to certain Alternative Investment Funds

- Benefit of pass through status extended to Alternative Investment Funds registered under new regulations of SEBI and subject to same conditions of investment restrictions in the context of investment in a venture capital undertaking.

N. Tax Deduction at Source (TDS) on transfer of certain immovable properties (other than agricultural land)

- Proposed to introduce tax deduction at source at the rate of 1% of the consideration payable by the Seller for transfer of immovable property (other than agricultural land) to a resident buyer where the total amount of consideration for the transfer of an immovable property is more than fifty lakh rupees.

O. Additional Income-tax on distributed income by company for buy-back of unlisted shares

- It is proposed to provide that consideration paid by a company for buy back of its own unlisted shares which is in excess of the sum received by the company at the time of issuance of such shares will be charged to tax and the company would be liable to pay additional income-tax @ 20% of the distributed income paid to the shareholder.

- The additional income-tax payable by the company shall be the final tax on similar lines as dividend distribution tax. The income arising to the shareholders in respect of such buy back by the company would be exempt where the company is liable to pay the additional income-tax on the buy-back of shares.

P. Computation of business income for transfer of immovable property in certain cases

- It is proposed to provide that where the consideration for the transfer of an asset (other than capital asset), being land or building or both, is less than the stamp duty value, the value so adopted or assessed or assessable shall be deemed to be the full value of the consideration for the purposes of computing business income.

Q. Taxability of immovable property received for inadequate consideration

- It is proposed to provide that where any immovable property is received for a consideration which is less than the stamp duty value of the property by an amount exceeding fifty thousand rupees, the stamp duty value of such property as on the date of the agreement as exceeds such consideration, shall be chargeable to tax in the hands of the individual or HUF as income from other sources.

R. Taxation of Income by way of Royalty or Fees for Technical Services

- In respect of income by way of royalty and fees for technical services, it is proposed to increase the rate of tax on gross basis from 10% to 25% to correct the anomaly with the DTAA rates. This rate of 25% shall be applicable to any income by way of royalty and fees for technical services received by a non-resident, under an agreement entered after 31.03.1976, which is taxable under section 115A.

S. GENERAL ANTI-AVOIDANCE RULE (GAAR)

- GAAR provisions as amended by the Expert Committee recommendations to take effect from 1st April, 2016.

T. Tax residency certificate ('TRC')

- It is proposed to submitting of TRC (with prescribed particulars) is mandatory but not sufficient to claim tax treaty benefits.

U. Implementation of Direct Taxes Code ('DTC')

- The Finance Minister has reiterated his commitment to introduce DTC before the Parliament for discussion purposes. However, no time line for the implementation of DTC has been prescribed.

4. Securities Transaction Tax

It is proposed to reduce STT rates in the taxable securities transactions as indicated hereunder

Sl.No.	Nature of taxable securities transaction	Payable by	Existing Rates (in per cent)	Proposed Rates (in per cent)
1	Delivery based purchase of units of an equity oriented fund entered into in a recognised stock exchange	Purchaser	0.1	Nil
2	Delivery based sale units of an equity oriented fund entered into in a recognized stock exchange	Seller	0.1	0.001
3	Sale of a futures in securities	Seller	0.017	0.01
4	Sale of a unit of an equity oriented fund to the mutual fund	Seller	0.25	0.001

Chapter 5
Indirect Taxes
Sector and Industry Specific Analysis

Chapter 5

Indirect Taxes

Sector and Industry Specific Analysis

Air-conditioning & Refrigeration

Industry Issues

Window/wall type self contained air-conditioners and household compression type refrigerators are included in the list of India-Thailand Agreement and attract NIL customs duty since 1st September 2006. However, there is no provisions to import inputs at NIL customs duty.

Parts of air-conditioners falling under tariff heading 8415 90 00 attract customs duty of 10%. This needs to be brought down to 7.5%.

Excise duty is exempted on 22 specified equipment mentioned in list 7 of central excise notification 12/2012– sl no. 232 when used for installation of cold storage, cold room or refrigerated vehicles for preservation, storage or transport of agricultural produce etc. This list needs to be expanded to include insulated composite panels and cold store door.

What CII Wanted

- Reduce customs duty from 10% to 7.5% on parts of air-conditioners.
- Extend excise exemption to insulated compositive panels and cold store door.

What the Government Gave

Item	Excise Duty (%)			Customs Duty (%)		
	2012-13	What CII wanted	Budget 2013-14	2012-13	What CII wanted	Budget 2013-14
Window / wall type self contained or split air-conditioners (8415 10)	12	12	12	10	10	10
Household refrigerators (8418 21 00, 8418 29 00)	12	12	12	10	10	10
Inputs						
Compressors (8414 30 00, 8414 80 11)	12	12	12	7.5	7.5	7.5
Thermostats (9032 10 10) Electronic Controls (8537 10 10) Copper/copper alloys tubes and fittings (7411, 7412)	12	12	12	7.5	7.5	7.5
Parts of air-conditioners (8415 90 00)	12	12	12	10	7.5	10
Parts of refrigerators (8418 99 00)	12	12	12	7.5	7.5	7.5

Impact of Budget 2013-14

- There is no change in customs and excise duties.

Alcoholic Beverages

Industry Issues

The packaging material for the potable alcohol is primarily glass bottles. The cost of glass bottles is a significant component in the costing of alcoholic beverages ranging from 6% to 30% of the cost of potable liquor.

Customs duty on glass bottles is 10% which needs to be reduced to 7.5%. The customs duty on glass culltes (7001 00 10) also needs to be reduced from 5% to 2.5% to safeguard the interest of indigenous manufacturers of glass bottles.

What CII Wanted

- Reduce customs duty from 10% to 7.5% on glass bottles.
- Reduce customs duty from 5% to 2.5% on glass cullets

What the Government Gave

Item	Excise Duty (%)			Customs Duty (%)		
	2012-13	What CII wanted	Budget 2013-14	2012-13	What CII wanted	Budget 2013-14
Beer made from malt (2203)	NIL CVD	NIL CVD	NIL CVD	100	100	100
Wine and liquor (2204, 2208)	NIL CVD	NIL CVD	NIL CVD	150	150	150
Inputs						
Glass bottles (7010 90 00)	12	12	12	10	7.5	10
Glass cullets (7001 00 10)	12	12	12	5	2.5	5

Impact of Budget 2013-14

- There is no change in customs and excise duties for this sector.

Industry Issues

The major user industries of caustic soda are pulp & paper, textile processing, aluminium smelting, soaps & detergents and plastic polymers. At present in India about 97% of the installed capacity of 33 lakhs MT is based on the more efficient membrane cell technology.

Electric power is the major input required for manufacture of caustic soda and accounts for almost 60% of the cost of production. The higher cost of power in India is the main factor which increases the cost of manufacture.

Customs duty on mono or bipolar membrane electrolysers and its parts as well as membranes for replacement and parts thereof is 5%. However, spare parts, other than membranes and parts thereof, required for the existing membrane cell plants attract customs duty of 7.5%. The concessional duty rate of 5% needs to be extended to such spare parts also.

What CII Wanted

- Allow import of spares (other than membranes and parts thereof) for existing membrane cell caustic soda / caustic potash plants at 5% customs duty.

What the Government Gave

Item	Excise Duty (%)			Customs Duty (%)		
	2012-13	What CII wanted	Budget 2013-14	2012-13	What CII wanted	Budget 2013-14
Caustic Soda (Sodium Hydroxide) (2815 11 & 2815 12)	12	12	12	7.5	7.5	7.5
Soda Ash (Disodium Carbonate) (2836 20)	12	12	12	7.5	7.5	7.5
Spare parts for caustic soda and caustic potash Membranes and parts thereof for replacement of worn out membranes of a caustic soda/caustic potash unit (85 or any other chapter)	12	12	12	5	5	5
Other spare parts falling under chapter 84,85 or 90	12	12	12	7.5	7.5	7.5
Steam coal (2701 90 20)	1 CVD	1 CVD	2 CVD	NIL	NIL	2

Impact of Budget 2013-14

- Customs duty on steam coal has been increased from NIL basic and 1% CVD to 2% basic and 2% CVD. However, customs duty on bituminous coal has been reduced form 5% basic and 6% CVD to 2% basic and 2% CVD.

Industry Issues

Unwrought aluminium and primary aluminium in the form of bars, rods, propiles, wire, plates, sheets and foils falling under tariff heading 7601 to 7607 attract customs duty of 5% where as some of the inputs attract higher rate of customs duty.

Coal tar pitch is one such input which attracts customs duty of 10% which is two times the 5% duty on aluminuium.

Aluminium scrap is recycled for manufacture of aluminium alloy ingots. The imported aluminium scrap attracts 12% CVD and 4% SAD. The manufacturers of aluminium alloy ingots from scrap are unable to utilize the CENVAT credit of CVD and SAD due to low value addition in conversion of scrap into ingots.

What CII Wanted

- Reduce customs duty from 10% to 5% on coal tar pitch.
- Exempt 4% Special Additional Duty on aluminium scrap falling under CTH 7602 00 10.

What the Government Gave

Item	Excise Duty (%)			Customs Duty (%)		
	2012-13	What CII wanted	Budget 2013-14	2012-13	What CII wanted	Budget 2013-14
Aluminium in various forms (7602 to 7607)	12	12	12	5	5	5
Aluminium products (7610 to 7616)	12	12	12	10	10	10
Inputs						
Aluminium ore (bauxite) (2606)	NIL	NIL	NIL	2.5	2.5	2.5
Calcined petroleum coke (2713 12 00)	14	14	14	2.5	2.5	2.5
Calcined alumina (2818 20 10)	12	12	12	5	5	5
Caustic soda (2815 11 10, 2815 12 00)	12	12	12	7.5	7.5	7.5
Coal tar pitch (2708 10 10)	14	14	14	10	5	10

Impact of Budget 2013-14

- Export duty of 10% on bauxite (natural) not calcined and 5% on bauxite (natural) calcined has been levied.

Industry Issues

Aluminium is one of the major input for auto components. Presently, customs duty on unwrought aluminium falling under tariff heading 7601 10 is 5% which is at par with customs duty on aluminium powder, bars, rods, wires, plates sheets, foils falling under tariff heading 7602 to 7607. Therefore, customs duty on unwrought aluminium under tariff heading 7601 10 needs to be reduced to 2.5%.

Catalytic converters are pollution control devices and control the emission of harmful gases from vehicles. These attract customs duty of 5%. Parts of catalytic converts also attract customs duty of 5%. In order to encourage indigenous manufacture of catalytic converters and their parts, 9 inputs are allowed for import at concessional customs duty of 5%. With the development of new technology, new raw materials are now being used by industry for manufacture of catalytic converters and their parts. Customs duty on such new materials viz SS wirecloth stripe (7314 14 10) and washcoat (3824 90 90) needs to be reduced from 10% and 7.5% respectively to 5%.

What CII Wanted

- Reduce customs duty on unwrought aluminium from 5% to 2.5%.
- Reduce customs duty from 10% to 5% on SS wirecloth stripe and from 7.5% to 5% on washcoat used for manufacture of catalytic converters and their parts.

What the Government Gave

Item	Excise Duty (%)			Customs Duty (%)		
	2012-13	What CII wanted	Budget 2013-14	2012-13	What CII wanted	Budget 2013-14
Engine for vehicles (8407 31, 8407 32, 8407 33, 8407 34, 8408 20)	12	12	12	7.5	7.5	7.5
Parts suitable for use principally with vehicle engines (8409 91 and 8409 99)	12	12	12	7.5	7.5	7.5
Catalytic converter (8421)	12	12	12	5	5	5
Inputs						
9 specified inputs for manufacture of catalytic converters and their parts (84 or any other chapter)	12	12	12	5	5	5
Unwrought aluminium (7601 10)	12	12	12	5	2.5	5
SS wirecloth stripe (7314 14 10)	12	12	12	10	5	5
Washcoat (3824 90 90)	12	12	12	7.5	5	5

Impact of Budget 2013-14

- Customs duty has been reduced to 5% on two additional inputs viz stainless steel wirecloth stripe and wash coat when imported for manufacture of catalytic converters.
- Basic customs duty has been exempted on lithium ion automotive battery for manufacture of lithium ion battery packs for supply to the manufacturers of hybrid and electric vehicles.

Industry Issues

Vehicles with seating capacity of 10 – 13 persons falling under tariff heading 8702 are mainly used for public transport and attract excise duty of 24% which needs to be reduced to 12% to bring at par with above 13 seator vehicles.

Excise duty on motor vehicles falling under tariff heading 8702 and 8703 exceeding 1500 cc engine capacity was increased from 22% + ₹15000 to 27% in the budget 2012. Excise duty on such vehicles needs to be reduced to 24%.

In the budget 2012, excise duty on automobile chassis was increased to 14% which needs to be reduced to 13% in case of chasis for tippers and normal load vehicles.

Basic customs duty on 11 specified inputs for hybrid vehicles was reduced to NIL and CVD to 6% in the budget 2012. However, this concession is valid upto 31 March 2013 which needs to be extended.

What CII Wanted

- Reduce excise duty from :
    - 24% to 12% on vehicles having seating capacity of 10 – 13 persons.
    - 27% to 24% on vehicles exceeding 1500 cc engine capacity falling under tariff heading 8702 and 8703.
    - 14% to 13% on chassis of vehicles falling under tariff heading 8706 00 42
- Continue and extend benefit of NIL customs duty and 6% CVD on 11 specified inputs of hybrid vehicles.

What the Government Gave

Item	Excise Duty (%)			Customs Duty (%)		
	2012-13	What CII wanted	Budget 2013-14	2012-13	What CII wanted	Budget 2013-14
Motor vehicles with seating capacity of 10 – 13 persons (8702)	24	12	12	60	60	60
Motor vehicles of engine capacity exceeding 1500 cc (8702, 8703)	27	24	27	60/75	60/75	60/75
Automobile chassis (8706 00 42)	14	13	13	10	10	10
11 Specified inputs for manufacture of hybrid vehicles (Any chapter)	6 CVD	6 CVD	6 CVD	NIL	NIL	NIL

Impact of Budget 2013-14

- Customs duty on motor cars with FOB value more than US $40,000 with engine capacity >3000 CC for petrol and >2500 CC for diesel or with both has been increased from 75% to 100%. Customs duty on old cars increased from 100% to 125% .
- Customs duty increased from 60% to 75% on new motor cycles with engine capacity of 800 CC or more.
- Concessional customs duties of NIL basic and 6% CVD on specified inputs for electric and hybrid vehicles mentioned at sl. no. 439 and 440 of customs notification 12/2012 were applicable upto 31.03.2013 and now these have been extended upto 31.03.2015.
- Excise duty on Chassis of diesel motor vehicles (8706 00 42) reduced from 14% to 13%
- Excise duty has been increased form 27% to 30% on SUVs including utility vehicles with engine capacity exceeding 1500 CC. This will not affect SUVs used as taxis as admissible refund has been adjusted.

Bearings

Industry Issues

Special type of slewing bearings are used in wind operated electricity generators. Import of such bearings is allowed at 5% customs duty as per sl. no. 362 of customs notification 12/2012 when imported for the manufacture or the maintenance of wind operated electricity generators. CVD is also exempted on such bearings due to excise exemption as per item no. 13 of list 8 attached to excise notification 12/2012-sl. no. 332.

Bearings for wind mills are custom made and designed to take very heavy load. The diameter of such bearings ranges from 1 meter to 3.5 meter. These bearings are now manufactured in India.

The main input for these bearings is forged steel rings falling under tariff heading 7326 90 99 and accounts for 60% of the total material cost. Customs duty on such forged steel rings is 10% plus 12% CVD compared to 5% plus NIL CVD on the bearings. Excise duty of 12% is also payable if the inputs are procured indigenously. It creates imbalance and makes difficult for the indigenous manufacturer to compete with the imported bearings.

What CII Wanted

- Reduce customs duty form 10% to 5% and CVD from 12% to NIL on forged steel rings when imported for manufacture of bearings of wind operated electricity generators.
- Include supplies of components and parts including special bearings of wind electricity generators in Rule 6 (6) of CENVAT Credit Rules 2004.

What the Government Gave

Item	Excise Duty (%)			Customs Duty (%)		
	2012-13	What CII wanted	Budget 2013-14	2012-13	What CII wanted	Budget 2013-14
Ball and roller bearings (8482)	12	12	12	7.5	7.5	7.5
Special bearings for wind operated electricity generated upto 30 KW (8482)	NIL	NIL	NIL	5	5	5
Input for Special Bearings						
Forged rings (7326 90 99)	12	NIL CVD	12	10	5	10

Impact of Budget 2013-14

- There is no change in customs as well as excise duty rates.

Industry Issues

Goods supplied to ultra mega power projects are exempted from excise duty as per sl. no. 337 and 338 of excise notification 12/2012. However, in case of goods supplied to nuclear power projects, excise duty has to be paid and subsequently claimed as refund under deemed export benefits. This results in blockage of funds of the supplier which adds to the cost. The excise exemption needs to be extended to nuclear power projects having NIL customs duties as per sl. no. 511 of customs notification 12/2012.

Exemption of 4% SAD includes various types of projects and certain capital goods. This erodes competitiveness of the domestic industry as CST/VAT is applicable on indigenously manufactured goods.

What CII Wanted

- Exempt excise duty on nuclear power projects and also include these in Rule 6(6) of CENVAT Credit Rules 2004.
- Impose 4% SAD on all types of projects and others which involve import of capital goods.

What the Government Gave

Item	Excise Duty (%)			Customs Duty +CVD +Spl. CVD (%)		
	2012-13	What CII wanted	Budget 2013-14	2012-13	What CII wanted	Budget 2013-14
Nuclear Power specified projects of capacity 440 MW or more (9801)	12	NIL	12	NIL+NIL+NIL	NIL+NIL+NIL	NIL+NIL+NIL
Project Imports (9801)	12	12	12	5+12+4	5+12+4	5+12+4
General Machinery not covered by any notification (84, 85)	12	12	12	7.5+12+4	7.5+12+4	7.5+12+4

Impact of Budget 2013-14

- The existing customs, excise and SAD rates continues.
- Customs duty has been reduced from 7.5% to 5% on some additional machines designed for use in the leather industry or the footwear industry.
- Customs duty on all textile machinery and parts thereof falling under headings 8444 to 8449 has been reduced from 7.5% to 5%.

Castings for Wind Operated Electricity Generators

Industry Issues

Wind operated electricity generators are non-conventional energy devices. These attract 5% customs duty and NIL excise duty. Due to excise exemption, CVD is also NIL on imported wind operated electricity generator as well as its components and parts. This puts the indigenous manufacturers of components and parts in a disadvantageous position.

One of the sectors affected is foundries which produce the castings for hub, base frame, bearing housing and main shaft which are supplied in unmachined or machined condition. They pay CVD of 12% on imported inputs. Excise duty of 12% is also payable if the inputs are procured indigenously. They cannot take CENVAT credit due to NIL excise duty on parts of wind operated electricity generators. If they avail credit of CVD and excise duty, they have to pay 6% of the value of goods supplied as per Rule 6 (3) (i) of CENVAT Credit Rules, 2004.

What CII Wanted

- Reduce CVD on the main inputs of casting viz pig iron SG grade and ferro-silicon-magnesium from 12% to NIL when imported for manufacture of cast components of wind operated electricity generators.
- Include supplies of components and parts of wind operated electricity generators in Rule 6(6) of CENVAT Credit Rules 2004

What the Government Gave

Item	Excise Duty (%)			Customs Duty +CVD +Spl. CVD (%)		
	2012-13	What CII wanted	Budget 2013-14	2012-13	What CII wanted	Budget 2013-14
Hub, base frame, bearing housing, main shaft of wind operated electricity generator (8503 00 10, 8503 00 90)	NIL	NIL	NIL	5	5	5
Inputs						
Pig iron SG Grade (7201 10 00)	12	NIL CVD	12	5	5	5
Ferro–silicon – magnesium (7202 29 00)	12	NIL CVD	12	5	5	5

Impact of Budget 2013-14

- There is no relief of CVD on pig iron SG Grade and Ferro-silicon magnesium and existing rates continues.

Industry Issues

In the budget 2012, excise duty rates were revised and presently packaged cement attracts 12% excise duty based on retail sale price with abatement of 30% plus specific excise duty of ₹120 per tonne. Excise duty on cement is higher than other inputs used in infrastructure and housing. Therefore, specific duty component on cement needs to be withdrawn.

Due to inadequate supplies of domestic coal, cement manufacturers have to resort to usage of expensive imported coal. The industry is trying alternative fuel sources like tyre chips. These attract customs duty of 10% which needs to be reduced to 5%.

What CII Wanted

- Remove specific component of excise duty of ₹120 per tonne on cement.
- Reduce customs duty form 10% to 5% on rubber tyre chips.

What the Government Gave

Item	Excise Duty			Customs Duty%		
	2012-13	What CII wanted	Budget 2013-14	2012-13	What CII wanted	Budget 2013-14
Cement manufactured and cleared in packaged form from other than a mini cement plant (2523 29)	12%+ ₹120 PMT	12%	12%+ ₹120 PMT	NIL	NIL	NIL
Cement cleared in other than packaged form (2523 29)	12%	12%	12%	NIL	NIL	NIL
Inputs						
Tyre chips (4004 00 00)	12%	12%	12%	10	5	5
Steam coal (2701 19 20)	1*%	1 CVD	2 CVD	NIL	NIL	2
Petroleum Coke (2713 11 00)	14%	14%	14%	2.5	2.5	2.5

*without CENVAT Credit

Impact of Budget 2013-14

- Customs duty on steam coal has been increased from NIL basic + 1% CVD to 2% basic + 2% CVD. However, customs duty on bituminous coal has been reduced from 5% basic + 6% CVD to 2% basic + 2% CVD.
- There is no change in excise duty structure on cement.

Industry Issues

The main input for manufacture of antimony trioxide is antimony. China is the main producer of antimony. During 2011-12, India imported antimony worth ₹3555 lac and 92% of import was from China as per data available on Ministry of Commerce website. China has imposed additional customs duty of 5% on export of antimony with effect from 1 July 2009 but there is no such duty on export of antimony trioxide. Consequently users prefer to import antimony trioxide from China. During 2011-12 India imported ₹8804 lac antimony oxides from China out of total imports of ₹11681 lac.

The combined effect of all these makes production of antimony trioxide from antimony unviable in India. This has resulted in under utilization of capacity of indigenous manufactures of antimony trioxide. Presently antimony attracts customs duty of 5% and its reduction to 2.5% can help the indigenous manufacturers of antimony trioxide.

What CII Wanted

- Reduce customs duty from 5% to 2.5% on antimony.

What the Government Gave

Item	Excise Duty %			Customs Duty%		
	2012-13	What CII wanted	Budget 2013-14	2012-13	What CII wanted	Budget 2013-14
Antimony oxides (2825 28 00)	12	12	12	7.5	7.5	7.5
Inputs						
Antimony (8110 10 00)	12	12	12	5	2.5	5

Impact of Budget 2013-14

- There is no change in customs duty rate on antimony.

Cigarettes

Industry Issues

The current system of length based specific excise duty for cigarettes introduced in 1987 has avoided valuation disputes and resulted in growth in revenue collection. It needs to be continued at the current level of taxation in excise.

The new segment of filter cigarettes, length not exceeding 65 mm, with excise duty of ₹669 per thousand cigarettes introduced in the budget 2012, was expected to provide an opportunity to the legitimate cigarette industry to offer cigarettes at competitive price. However, it has not helped as illegal filter cigarettes are sold to consumers at ₹1 per stick and the organized cigarette industry cannot match that price.

What CII Wanted

- Continue with the specific excise duty structure for cigarettes at current level of taxation.
- Reduce excise duty from ₹669 to ₹200 per 1000 cigarettes of length not exceeding 65 mm.

What the Government Gave

Item	Excise +NCCD+Health Cess ₹ Per 1000 Cigarettes			Customs Duty (%)		
	2012-13	What CII wanted	Budget 2013-14	2012-13	What CII wanted	Budget 2013-14
Cigarettes non-filter (<=65mm) (2402 20 10)	669	200	669	30	30	30
Cigarettes non-filter (>65-70mm) (2402 20 20)	1718	1718	2027			
Cigarettes filter (<=65mm) (2402 20 30)	669	200	669			
Cigarettes filter (65-70mm) (2402 20 40)	1194	1194	1409			
Cigarettes filter (70-75mm) (2402 20 50)	1718	1718	2027			
Cigarettes filter (75-85mm) (2402 20 60)	2309	2309	2725			
Cigarettes other (2402 20 90)	2788	2788	3290			
Cigarettes of tobacco substitute (2402 90 10)	1408	1408	1661			

Impact of Budget 2013-14

- Specific excise duty structure on cigarettes continues.
- Excise duty has been increased on cigarettes, cigars, cheroots and cigarillos. However, there is no change in NCCD and Health Cess rates.

Copper & Copper Scrap

Industry Issues

In India, the secondary producers of copper can be divided into two categories viz. the organized sector and unorganized sector. Unorganized sector procure copper scrap from *Kabaris* and mostly conduct their business without paying any taxes. The organized sector find itself in a disadvantageous position due to the following:

- Customs duty on scrap of copper is 5% which is at par with customs duty on copper.
- Unable to utilize the CENVAT credit of 12% CVD and 4% SAD paid on imported scrap due to low value addition in conversion of scrap into metal form.

Many of industrialized nations like China, USA, EU, Russia and Japan do no impose any duties on the import of copper scrap. Infact, China has emerged as the biggest importer and processor of copper scrap. On the other hand, India is among a handful of countries imposing duties on copper scrap.

In the budget 2012-13, 4% SAD was exempted on brass scrap falling under tariff heading 7404 vide sl. no. 80 of customs notification 12/2012 read with corrigendum issued on 19 March 2012. This exemption needs to be extended to copper scrap also.

What CII Wanted

- Reduction of customs duty from 5% to NIL on copper scrap.
- Exemption of 4% Special Addition Duty on copper scrap.

What the Government Gave

Item	Excise Duty (%)			Customs Duty (%)		
	2012-13	What CII wanted	Budget 2013-14	2012-13	What CII wanted	Budget 2013-14
Copper rods, copper wire-bars (7403)	12	12	12	5	5	5
Inputs						
Copper ores and concentrates (2603)	NIL	NIL	NIL	2.5	2.5	2.5
Copper scrap (7404)	12	12	12	5	NIL	5

Impact of Budget 2013-14

- There is no relief in customs duty and SAD on copper scarp.

Industry Issues

Navelbine is a new medicine and is being imported for use in the therapy of treating Non-Small-Cell Lung Cancer (NSCLC). This needs to be included as a life saving drug in list 4 of customs notification 12/2012-SL. NO. 148.

Radioisotope TI-201 and Technitium-99M are tracer molecules used in medical imaging appear at sl no. 92 and 111 of customs list 4 and attract NIL customs duty as per sl no. 148 of customs notification 12/2012. Similar customs duty concession needs to be extended to Radioisotope-FDG 18 mainly used as medical imaging modality Positron Emission Tomography.

In list 3 of customs notification 12/2012, “Interferon alpha-2b/alpha-2a/interferon alpha-2a/Interferon NL (LNS)” appears at Sl. No. 37. Likewise, “Interferon beta-1b” is a newly developed life saving drug akin to the medicine at sl.no. 37 and hence should also be allowed for import at concessional customs duty by adding in list 3.

List 3, also includes cancer drugs “Pegulated Liposomal Doxorubicin Hydrochloride injection” and “Doxorubicin” at sl. No. 89 and 128 respectively. Likewise, “Doxorubicin Hydrochloride Liposomal injection” is a medicine meant for treatment of cancer and needs to be included in list 3.

What CII Wanted

- Include Navelbine and Radioisotope-FDG 18 in list 4 of customs notification 12/2012 to bring down customs duty to NIL.
- Allow import of the following medicines at concessional customs duty of 5% by including these in list 3 of customs notification 12/2012:
  - Interferon beta-1b
  - Doxorubicin Hydrochloride Liposomal injection

What the Government Gave

Item	Excise Duty (%)			Customs Duty (%)		
	2012-13	What CII wanted	Budget 2013-14	2012-13	What CII wanted	Budget 2013-14
Drug formulations (3001, 3003, 3004, 3005, 3006)	6	6	6	10	10	10
126 specified life saving drugs / medicines including their salts and esters and diagnostic kits – list 4 of customs (28,29,30,38)	NIL	NIL	NIL	NIL	NIL	NIL
181 specified drugs, medicines, diagnostic kits or equipment – list 3 of customs (28,29,30)	NIL	NIL	NIL	5	5	5

Impact of Budget 2013-14

- There is no change in customs and excise duties on any allopathic medicines.
- Branded Ayurvedic, Unani, Siddha, Homeopathy and bio-chemic medicaments have been brought under MRP based assessment with an abatement of 35% from the MRP.

Industry Issues

21 specified equipment mentioned in list 16 of customs and used for construction of roads are allowed for import at NIL basic customs duty, NIL CVD and NIL additional duty of customs (SAD) as per customs notification12/2012-sl.no.368 and customs notification 21/2012-sl.no.1. This list needs to be amended as some of the equipments are now manufactured in India and changes needed are :

Item No. 12 – Stone crushing (cone type) plants needs to be replaced by Track mounted crushing plants above 200 TPH capacity with product size minus 40 mm.

Item No. 16 – Mobile concrete pump placer of 90/120 mm/hr capacity needs to be deleted.

Item No. 20 – Skid steer loaders needs to be deleted.

In the budget 2012, tunnel excavation and lining equipments consisting of drilling jumbos, loaders, excavators, shortcrete machines and three stage crushers for use in highway development projects was added at sl. no. 21 of list 16 of the customs. Some of these equipments are made in India. Therefore, exemption of duties should be limited to drilling jumbos for tunnel excavation and 3 stage crushers except track mounted crushing plants above 200 TPH capacity with minus 40 mm product size.

What CII Wanted

- Delete the equipment at sl. no. 16 and 20 of list 16 which are made in India.
- Modify the description of equipment at sl. no. 16 and 21 to exclude those equipment which are being made indigenously.

What the Government Gave

Item	Excise Duty (%)			Customs Duty (%)		
	2012-13	What CII wanted	Budget 2013-14	2012-13	What CII wanted	Budget 2013-14
Complete equipment such as excavators / dozers / shovel loaders / mechanical shovels etc. (8429, 8430)	12	12	12	7.5	7.5	7.5
21 specified equipment for construction of roads – list 18 of customs (84 or any other chapter)	12	12	12	NIL	NIL	NIL
Complete Off-Highway dumpers (8704 10)	12	12	12	10	10	10

Impact of Budget 2013-14

- There is no change in customs and excise duties on earthmoving and construction equipments.

Industry Issues

Metalic hardware is used in various types of insulators. High voltage transmissions lines usually use modular cap and pin insulators where in the conductors are suspended from a string of identical disc shaped insulators attached to each other with metal clevis pin or ball and socket links. Most of the metal parts for insulators fall under tariff heading 7325 which attracts customs duty of 10% as compared to 7.5% on imported insulators. This is an anomaly in customs duty structure and needs to be rectified.

What CII Wanted

- Reduce customs duty from 10% to 7.5% on metal parts of electrical insulators falling under tariff heading 7325.

What the Government Gave

Item	Excise Duty (%)			Customs Duty (%)		
	2012-13	What CII wanted	Budget 2013-14	2012-13	What CII wanted	Budget 2013-14
Electrical Insulators (8546)	12	12	12	7.5	7.5	7.5
Inputs						
Metal Parts for insulators (7325)	12	12	12	10	7.5	10

Impact of Budget 2013-14

- There is no change in customs duty on metal parts for insulators and the existing anomaly in customs duty structure continues.

Fly Ash Bricks

Industry Issues

To encourage use of fly ash, government gave full excise exemption in the year 1991 vide excise notification 60/91 on goods falling under chapter 68 in which not less than 25% by weight of fly-ash has been used. This exemption continued for a long time.

Subsequently the following changes in excise duty were made on goods of chapter 68, in which not less than 25% by weight of fly ash or phosphor-gypsum or both have been used.

Date	Excise Duty	Remarks
1.3.2006	8%	Excise duty of 8% was levied when general rate was 16%
17.2.2008	4%	Excise duty was reduced from 8% to 4% in the stimulus package
7.7.2009	8%	Excise duty rate increased from 4% to 8%
27.2.2010	10%	Excise duty rate increased from 8% to 10%
17.3.2012	12%	Excise duty rate increased from 10% to 12%

Usage of fly ash for manufacture of fly ash bricks and asbestos cement products containing not less than 25% fly ash by weight needs to be encouraged by reducing excise duty to half the general rate.

What CII Wanted

- Reduce excise duty from 12% to 6% on goods falling under chapter 68 in which not less than 25% by weight of fly ash has been used.

What the Government Gave

Item	Excise Duty (%)			Customs Duty (%)		
	2012-13	What CII wanted	Budget 2013-14	2012-13	What CII wanted	Budget 2013-14
Fly ash bricks (6815 99 10)	12	6	12	10	10	10
Asbestos cement products containing minimum of 25% of fly ash by weight (6811)	12	6	12	10	10	10
Input						
Fly ash (26 or any other chapter)	6/2*	6/2*	6/2*	5	5	5

*without CENVAT credit

Impact of Budget 2013 – 14

- There is no change in excise duty on fly ash products.

Industry Issues

Even though excise duty on number of food products is 6%, option is there to pay 2% excise duty without availment of CENVAT credit. This facility needs to be continued.

The high rate of excise duty of 12% on packing materials used for processed food adds to the cost resulting in increase in prices. Therefore reduction of excise duty from 12% to 6% on packaging materials needs consideration.

Currently on packaged drinking water, excise duty of 12% is levied which needs to be brought down to 6%.

Though most of food products attract 6% excise duty, there are few items attracting excise duty of 12%. Such items are mainly those containing cocoa and instant coffee. This discrimination needs to be removed by reducing excise duty on all food products having 12% rate to 6%.

While most of the ready to serve beverages are subject to excise duty on MRP basis, iced tea falling under tariff tariff heading 2101 20 90 is still assessed to 12% excise duty on transaction value.

What CII Wanted

- Continue with the existing exemptions either in the form of NIL excise duty or 2% excise duty without CENVAT credit.
- Reduce excise duty form 12% to 6% on packing materials (printed laminates and pet jars) used by the food processing industry.
- Reduce excise duty from 12% to 6% on packaged drinking water and processed food having excise duty of 12%.
- Include iced tea under section 4A of the Central Excise Act for the purpose of valuation with abatement.

What the Government Gave

Item	Excise Duty (%)			Customs Duty (%)		
	2012-13	What CII wanted	Budget 2013-14	2012-13	What CII wanted	Budget 2013-14
Sugar confectionery containing cocoa (1806 90 20) Chocolates & chocolate products (1806 90 10)	12	6	12	30	30	30
Malted food for other than infant use (1901 90)	12	6	12	30	30	30
Wafers having chocolate (1905 32 11)	12	6	12	30	30	30
Instant coffee (2101 11 10, 2101 11 20)	12	6	12	30	30	30
Mineral Water (2201, 2202)	12	6	12	30	30	30

Impact of Budget 2013-14

- Customs duty on hazel nuts has been reduced from 30% to 10%.
- Customs duty on de-hulled oat grain has been reduced from 30% to 15%.
- HSN classification of peanut butter has been changed from 1517 90 20 to 2008 11 00.
- Excise duty has been exempted on tapioca saga (Sabudana) and tapioca starch captively consumed.
- Exemption of 3% Education Cess on soyabean oil and olive oil has been withdrawn.

Industry Issues

Refined glycerine (glycerol) attracts customs duty of 7.5%. The main input for manufacture of refined glycerine is crude glycerine which attracts customs duty of 12.5%. Thus there is a gap of 5% between raw material and finished product duty structure. This is case of inverted duty structure which needs to be corrected.

Due to lesser customs duty on refined glycerine, user prefer to import it. Reduction of customs duty on crude glycerine would give the opportunity to utilize the surplus installed glycerine refining capacity in the country. Therefore, customs duty on crude glycerine should be reduced from 12.5% to 7.5% to bring at par with the duty on refined glycerine.

What CII Wanted

- Reduce customs duty on crude glycerine from 12.5% to 7.5%.

What the Government Gave

Item	Excise Duty (%)			Customs Duty (%)		
	2012-13	What CII wanted	Budget 2013-14	2012-13	What CII wanted	Budget 2013-14
Refined Glycerine (Glycerol) (2905 45 00)	12	12	12	7.5	7.5	7.5
Refined Glycerine (Glycerol) from ASEAN Agreement Countries (2905 45 00)	12	12	12	6	6	6
Refined Glycerine (Glycerol) from Asia Pacific Trade Agreement countries (2905 45 00)	12	12	12	2.175	2.175	2.175
Inputs						
Crude Glycerine (Glycerol) (1520 00 00)	12	12	12	12.5	7.5	12.5

Impact of Budget 2013-14

- There is no reduction in customs duty of 12.5% on crude glycerine and the anomaly in duty structure between crude and refined glycerine continues.

Industry Issues

Natural gas, crude oil and coal are collectively known as hydrocarbons. Presently India is importing all the three varieties of hydrocarbons. Customs duty on crude oil, coking coal and steam coal is NIL where as natural gas attracts customs duty of 5%.

Indigenous production of natural gas is not sufficient to meet the requirement of various users and to meet the shortfall, India imported 13.47 million tonnes of liquefied natural gas (LNG) worth ₹32,873 crores during 2011-12.

In the budget 2012-13, customs duty on liquefied natural gas (LNG) and natural gas (NG) was reduced to NIL vide sl. no. 138 of customs notification 12/2012 when imported for generation of electrical energy by a generating company. Most of the power generating companies are unable to avail this duty concession as they do not have the infrastructure to bring LNG to Indian ports, re-gasify it and then transport through pipeline to the generating unit. Customs duty on LNG needs to be reduced to NIL without mentioning any end use condition so that it can be subsequently used after re-gasification by all users.

National Calamity Contingent Duty (NCCD) of ₹ 50 per tonne is payable on crude oil which was imposed vide Section 169 of the Finance Act 2003 and it was mentioned that it will be limited to one year only i.e upto 29.02.2004. Subsequently in the Finance Act 2005, NCCD was extended without any time limit. NCCD on crude oil needs to be withdrawn.

What CII Wanted

- Reduce customs duty from 5% to NIL on LNG without any end use condition.
- Withdraw NCCD on crude oil.

What the Government Gave

Item	Excise Duty			Customs Duty (%)		
	2012-13	What CII wanted	Budget 2013-14	2012-13	What CII wanted	Budget 2013-14
Crude Oil (2709 00 00)	Cess of ₹4500 per tonne	Cess of ₹4500 per tonne	Cess of ₹4500 per tonne	NIL	NIL	NIL
Natural Gas (2711 21 00)	NIL	NIL	NIL	5	NIL	5
Liquefied Natural gas (LNG) (2711 11 00)	NIL	NIL	NIL	5	NIL	5
Natural gas and liquefied natural gas imported by electricity generating company (2711 21 00, 2711 11 00)	NIL	NIL	NIL	NIL	NIL	NIL

Impact of Budget 2013-14

- There is no relief to users of liquefied Natural Gas (LNG) in customs duty.

Insulated Cables

Industry Issues

Electrical cables fall under HS Code 8544 and attract customs duty of 7.5%. In these cables the conductors used are produced from copper wire rod and aluminium wire rod which attract customs duty of 5%. The other main input for cables is insulating materials which attract higher rate of customs duty.

In case of rubber insulated cables, Ethylene Propylene Diene Monomer commonly known as EPDM (HS Code 4002 70 00) is widely used which attract customs duty of 10%.

In certain types of cables, water blocking tape (HS Code 3919 90 90) is used in addition to the insulating material to make the cables water penetration resistance. Customs duty on water blocking tape is 10%.

In case of fire resistance cables, the primary insulation is of mica glass fire resistance tape. This is used along with the secondary insulation of cross linked low smoke and fume material. Customs duty on mica glass tape (HS Code 6814 90 90) is 10%.

Higher customs duty of 10% on inputs compared to 7.5% on the electrical cables puts the indigenous manufacturers in a disadvantageous position.

What CII Wanted

- Reduce customs duty from 10% to 7.5% on EPDM, water blocking tape and mica glass tape when imported for manufacture of insulated cables.

What the Government Gave

Item	Excise Duty			Customs Duty (%)		
	2012-13	What CII wanted	Budget 2013-14	2012-13	What CII wanted	Budget 2013-14
Insulated wires and cables (8544)	12	12	12	7.5	7.5	7.5
Inputs						
Ethylene – propylene – non-conjugated diene rubber (EPDM) (4002 70 00)	12	12	12	10	7.5	10
Water blocking tape (3919 90 90)	12	12	12	10	7.5	10
Mica glass tape (6814 90 90)	12	12	12	10	7.5	10

Impact of Budget 2013-14

- No relief on inputs attracting higher rate of customs duty.

Industry Issues

The manufacture of CNC machines require specialised components of high precision which are manufactured by a select few companies in the world. These components contribute around 30 percent of the input cost to the manufacture of CNC machines.

The reduction of the customs duty on these critical parts for machine tools from the present rate of 7.5% to 2.5% would bring down the input costs and so the selling prices of these machines, thereby, spurring demand from the manufacturing sectors.

What CII Wanted

- Reduce customs duty from 7.5% to 2.5% on component parts not manufactured in India and used for manufacturer of CNC machine tools.

What the Government Gave

Item	Excise Duty (%)			Customs Duty (%)		
	2012-13	What CII wanted	Budget 2013-14	2012-13	What CII wanted	Budget 2013-14
Machine Tools (8456 to 8465)	12	12	12	7.5	7.5	7.5
Inputs						
CNC systems (8537 10 00))	12	12	12	7.5	7.5	7.5
Imported Component Parts for CNC Systems						
Servo drives/motors (8501) Precision spindles (8466 93) Ball screws (8483 40 00) Linear motion guide ways (8482 80 00) Precision bearings (8482) Precision gauging and balancing systems (9031 80 00)	12	12	12	7.5	2.5	7.5

Impact of Budget 2013-14

- There is no change in customs duty rates on CNC systems as well as their imported components parts.

Medical Equipments

Industry Issues

Endovascular stents are exempted from basic customs duty as per sl. no. 472 of customs notification 12/2012 but excise duty of 6% is applicable which needs to be exempted.

Wet surgical brush with sponge either impregnated with providone iodine or chlorhexidine and dry surgical brush with sponge are used for infection control to avoid microbial entry in hospitals. These brushes attract customs duties of 10% basic, 12% CVD and 4% SAD which needs to be reduced to 5% basic, 6% CVD and NIL SAD.

Nasal reconstructive surgery use Polydioxanore (PDS) plates attracting customs duty of 10% which needs to be reduced to NIL.

Continuous ambulatory peritoneal dialysis system with drain bags, tubings and connectors falling under tariff heading 9018 attract 5% basic customs duty, 6% CVD and NIL SAD.

Medical grade PVC sheeting falling under tariff heading 3921 90 99 are used for manufacture of this equipment and attract customs duty of 10%+12%+4% which needs to be reduced to 2.5%+6%+NIL.

What CII Wanted

- Reduce excise duty from 6% to NIL on endovascular stents.
- Reduce customs duties on surgical brushes from 10%+12%+4% to 5%+6%+NIL.
- Reduce customs duty from 10% to NIL on PDS Plates used for nasal reconstructive surgery.
- Allow import of medical grade PVC sheeting for manufacture of continuous ambulatory peritoneal dialysis system at concessional 2.5% basic customs duty, 6% CVD and NIL SAD.

What the Government Gave

Item	Excise Duty (%)			Customs Duty (%)		
	2012-13	What CII wanted	Budget 2013-14	2012-13	What CII wanted	Budget 2013-14
Medical Equipment (9018, 9019, 9022)	6	6	6	5	5	5
Endovascular stents (90)	6	NIL	6	NIL	NIL	NIL
Surgical brushes	12	6	12	10	5	10
Inputs						
Polydioxanore (PDS) plates (3920 69 99)	12	12	12	10	NIL	10
Medical grade PVC sheeting (3921 90 99)	12	6	12	10	2.5	10

Impact of Budget 2013-14

- No concession has been given in excise and customs duties on any additional item of medical equipment.

Industry Issues

Magnetron which generates and transmits non-coherent microwaves is a major input for microwave ovens and it is not made in India. Customs duty on magnetron was reduced from 10% to 5% in the budget 2011 to encourage indigenous manufacture of microwave ovens.

Presently 5% customs duty on magnetron is subject to condition that the manufacturer follows the procedure set in the customs under Import of Goods at Concessional Rate of Duty for Manufacture of Excisable Goods Rules, 1996 (IGCR). Due to this condition, the manufacturers, who import magnetron and then get microwave ovens made through another equipment manufacture, are not able to avail benefit of duty concession and are liable to pay 10% basic customs duty which make them uncompetitive.

What CII Wanted

- The facility of availing 5% customs duty on magnetron needs to be allowed without IGCR condition.

What the Government Gave

Item	Excise Duty			Customs Duty (%)		
	2012-13	What CII wanted	Budget 2013-14	2012-13	What CII wanted	Budget 2013-14
Microwave oven (8516 50 00)	12	12	12	10	10	10
Input						
Magnetron of upto 1KW used for the manufacture of domestic microwave (8540 71 00)	12	12	12	5	5 without IGCR	5

Impact of Budget 2013-14

- There is no change in the condition applicable for availment of concessional rate of customs duty on magnetron used for microwave oven.

Molasses

Industry Issues

Cane molasses is a by-product of sugar industry. It is used by distillers for production of ethyl alcohol (ethanol). Ethyl alcohol is converted to denatured ethyl alcohol and used for manufacture of various industrial chemicals.

Excise duty on molasses is ₹750 per metric tonne since 1 March 2006 which was fixed considering the general CENVAT rate of 16% and the prevailing market price of molasses at that time. The general rate of excise duty has been reduced from 16% to 12% but there has not been any reduction in the specific excise duty rate on molasses.

On an average 1000 Kg of molasses is used to produce 225 liters of denatured ethyl alcohol. The manufacturer of denatured ethyl alcohol is not able to utilize the entire CENVAT credit attributable to molasses, other inputs and services. Therefore, there is need to reduce the specific excise duty on molasses to bring at par with the 12% excise duty rate.

What CII Wanted

- Reduce excise duty on molasses from ₹ 750 to ₹ 500 per MT.

What the Government Gave

Item	Excise Duty			Customs Duty (%)		
	2012-13	What CII wanted	Budget 2013-14	2012-13	What CII wanted	Budget 2013-14
Cane molasses (1703 10 00)	₹750 per MT	₹500 per MT	₹750 per MT	10	10	10

Impact of Budget 2013-14

- There is no change in specific excise duty rate on molasses.

Paints

Industry Issues

Manufacture of paint involves mixing of a wide variety of raw materials in various proportions. On an average raw materials account for 56% of the total expenditure in paint companies.

Titanium dioxide is the vital pigment used in paints. Pigments and preparations containing 80% or more of titanium dioxide are also used in paints.

In the budget 2012, customs duty on titanium dioxide under CTH 2823 00 10 was reduced from 10% to 7.5% to bring at par with other inputs vide sl. no. 150 of customs notification 12/2012.

Titanium dioxide also falls under CTH 3206 as pigments and preparations based on titanium dioxide. This is evident from Anti-dumping duty customs notification 85/2009 on titanium dioxide where in both CTH 2823 and 3206 are mentioned. Therefore customs duty on pigments and preparations of titanium dioxide under CTH 3206 11 also needs to be reduced from 10% to 7.5% to give relief to the users.

What CII Wanted

- Reduce customs duty from 10% to 7.5% on pigments and preparations based on titanium dioxide falling under tariff heading 3206 11.

What the Government Gave

Item	Excise Duty (%)			Customs Duty (%)		
	2012-13	What CII wanted	Budget 2013-14	2012-13	What CII wanted	Budget 2013-14
Paints (3208, 3209)	12	12	12	10	10	10
Inputs						
Titanium dioxide (2823 00 10)	12	12	12	7.5	7.5	7.5
Pigments and preparations based on titanium dioxide containing 80% or more of titanium dioxide (3206 11)	12	12	12	10	7.5	10
Zinc oxide (2817 00 10)	12	12	12	7.5	7.5	7.5
Ethylene glycol (2905 31 00)	12	12	12	7.5	7.5	7.5

Impact of Budget 2013-14

- There is no change in customs duty on pigments and preparations based on titanium dioxide containing 80% or more of titanium dioxide.

Industry Issues

Customs duty on naptha is 5%. Reformat (Aromatic naptha) is also used as feedstock by the petrochemical industry and attracts customs duty of 10%. Other feedstocks for petrochemicals industry are liquefied gases like natural gas, propane gas, butane gas and ethane and these attract customs duty of 5%. Customs duty on all feedstock needs to be reduced to NIL.

Ethylene, propylene and styrene are the main building blocks for polymers and attract customs duty of 2.5% to 5% which needs to be rationalized to uniform rate of 2.5%.

Ethylene dichloride (EDC) and vinyl chloride (VCM) are polymer intermediates attracting customs duty of 2.5% and this rate can be continued.

Bulk polymers falling under tariff headings 3901 to 3904 attract customs duty of 5% which needs to be increased to 7.5%.

Consumer products of plastics falling under tariff headings 3922 and 3924 to 3926 attract customs duty of 10% which needs to be increased to 15% to safeguard the interst of indigenous manufacturers.

What CII Wanted

- Rationalize customs duty on all feedstocks for petrochemicals to NIL, on building blocks as well as polymer intermediates to 2.5%. and on polymers to 7.5%.
- Increase customs duty from 10% to 15% on consumer products of plastics falling under tariff headings 3922 and 3924 to 3926.

What the Government Gave

Item	Excise Duty (%)			Customs Duty (%)		
	2012-13	What CII wanted	Budget 2013-14	2012-13	What CII wanted	Budget 2013-14
Naptha (2710)	14	14	14	5	NIL	5
Reformate (Aromatic naptha) (2707 50 00)	14	14	14	10	NIL	10
Liquefied natural gas (LNG) (2711 11 00) Liquefied propane gas (2711 12 00) Liquefied Butane (2711 13 00)	NIL	NIL	NIL	5	NIL	5
Saturated acrylic hydrocarbon – Ethane (2901 10 00)	12	12	12	5	NIL	5
Polymer Building Blocks (2902 50 00), (2901 21 00), (2901 22 00)	12	12	12	2.5/5	2.5	2.5/5
Polymers (3901 to 3906)	12	12	12	5/7.5	7.5	5/7.5
Plastic articles (3922, 3924 to 3926)	12	12	12	10	15	10

Impact of Budget 2013-14

- The existing customs duty structure on entire chain from feedstocks to plastic articles continues.

Safety & Security Equipment

Industry Issues

Tariff heading 8531 covers safety equipment. Customs duty on goods falling under HS Code 8531 10, 8531 80 00 and 8531 90 00 needs to be reduced from 10% to 7.5% to make these more affordable.

As per sl. no. 490 of customs notification 12/2012 read with condition 89, X-Ray baggage inspection systems and parts thereof falling under tariff heading 9022 are allowed for import at NIL customs duty by the specified government agencies for the purposes mentioned there in. This concession needs to be extended to the security equipment which are used for bomb detection, explosive deduction etc.

Some of the major airports are now managed under PPP Model by joint venture companies and they are not able to avail the customs duty concession on X-Ray baggage inspection systems and parts thereof.

What CII Wanted

- Reduce customs duty from 10% to 7.5% on security and safety equipment as well as their parts.
- The existing entry at sl. no. 490 in customs notification 12/2012 may be amended as "X-Ray Baggage Inspection systems and other airport security systems and parts thereof falling under chapter 84, 90 or any other chapter".
- Condition No. 89 of customs notification 12/2012 may be amended to include imports by airport operators subject to production of certificate from Ministry of Civil Aviation.

What the Government Gave

Item	Excise Duty (%)			Customs Duty (%)		
	2012-13	What CII wanted	Budget 2013-14	2012-13	What CII wanted	Budget 2013-14
Burglar or fire alarms and similar apparatus (8531 10)	12	12	12	10	7.5	10
Other apparatus for security (8531 80 00)	12	12	12	10	7.5	10
Inputs						
Parts (8531 90 00)	12	12	12	10	7.5	10

Impact of Budget 2013-14

- There is no relief on customs duty rates for this sector.

Industry Issues

Customs duty on soaps is 10%. Various inputs for manufacture of soap and soap noodles attract higher rate of customs duty creating an anomalous situation.

Crude palm stearin (CPS) and crude palm kernel oil (CPKO) with Free Fatty Acid (FFA) of 20% or more, commonly known as industrial oils, are used in the manufacture of soaps, fatty acids and fatty alcohols. Crude palm stearin attract customs duty of 10%. Other industrial oils attract customs duty of 20%. However, customs duty payable is 12.5% for manufactures of soaps, industrial fatty acids and fatty alcohols having plant for splitting up such oils into fatty acids and glycerols as per sl. No. 51 I(B) of customs notification 12/2012.

Palm fatty acid distillate (PFAD), industrial mono-carboxylic fatty acids and fatty alcohols falling under HS Code 3823 are also used for manufacture of soaps and customs duty on these is 15%, which is higher than the duty rate on soap.

What CII Wanted

- Reduce customs duty from 12.5% - 20% to 10% on industrial oils with FFA of 20% or more when imported for manufacture of soaps, industrial fatty acids and fatty alcohols.
- Reduce customs duty from 15% to 10% on palm fatty acid distillate (PFAD), industrial mono-carboxylic fatty acids and fatty alcohols.

What the Government Gave

Item	Excise Duty (%)			Customs Duty (%)		
	2012-13	What CII wanted	Budget 2013-14	2012-13	What CII wanted	Budget 2013-14
Soaps and soaps noodles (3401 20 00)	12	12	12	10	10	10
Inputs						
Oils (except crude palm oil and crude palm stearin) having a Free Fatty Acid (FFA) 20% or more imported for manufacture of soaps, industrial fatty acids and fatty alcohol by a manufacturer having plant for splitting up of such oils into fatty acids and glycerols (1507 to 1515)	NIL	NIL	NIL	12.5	10	12.5
Oils (except crude palm oil), having a Free fatty Acid (FFA) 20% or more for manufacture of soaps, industrial fatty acids and fatty alcohols (1507 to 1515)	NIL	NIL	NIL	20	10	20
Palm fatty acid distillate, industrial mono-carboxylic fatty acids and industrial fatty alcohols (3823 11 90, 3823 12 00, 3823 13 00, 3823 19 00, 3823 70)	12	12	NIL	15	10	15

Impact of Budget 2013-14

- There is no relief on customs duty on industrial oils and palm fatty acid distillate.

Solar Cells and Solar Modules

Industry Issues

Solar cells which are also called photovoltaic cells, and solar modules (8541 40 11) are part of Non-conventional energy devices and to encourage their use, all types of customs duties on imports have been exempted.

Presently, basic customs duty on specified inputs for solar cells/modules is exempted vide sl. no. 7, 18 and 38 of customs notification 25/1999. However, due to applicability of CVD and SAD on these inputs, the indigenous manufacturers were put in disadvantageous position as they could not avail credit due to NIL excise duty on solar cells. Exemption of CVD was given for sl no. 7 and 18 of customs notification 25/1999 by inserting sl. no. 319 in customs notification 12/2012 on 8.5.2012. This has helped the indigenous manufacturers. Similar treatment needs to be extended to 4 inputs covered by sl. no. 38 of customs notification 25/1999.

What CII Wanted

- Exempt CVD on four imported inputs mentioned at sl. no. 38 of customs notification 25/1999 used for manufacture of solar cells and solar modules by suitable amendment in sl. no. 319 of customs notification 12/2012.

What the Government Gave

Item	Excise Duty (%)			Customs Duty (%)		
	2012-13	What CII wanted	Budget 2013-14	2012-13	What CII wanted	Budget 2013-14
Solar Cells whether or not assembled in modules or panels (8541 40 11)	NIL	NIL	NIL	NIL	NIL	NIL
Inputs						
Specified 18 inputs (28, 29, 38, 76)	NIL CVD	NIL CVD	NIL CVD	NIL	NIL	NIL
Specified 17 inputs (28, 38, 39, 70, 74, 76)	NIL CVD	NIL CVD	NIL CVD	NIL	NIL	NIL
Specified 4 inputs - polyvinyl fluoride (TEDLAR), aluminium tedlar, toughned glass, silver paste (38, 39, 76 or any other chapter)	12	NIL CVD	12	NIL	NIL	NIL

Impact of Budget 2013-14

- It has been claried that basic customs duty exemption under sl. no. 39 of customs notification No. 24/2005 is available to all goods including chemicals and electronic parts required for the manufacture of solar cells whether or not assembled in modules or panels.

Industry Issues

Induction furnaces owners using imported melting scrap of steel pay CVD of 12% and SAD of 4%. Their product attract excise duty of 12%. Consequently they are unable to utilize the CENVAT credit of CVD and SAD due to lower value addition in conversion of scrap into steel which adds to the cost.

At present the process of cutting and slitting of steel coils/sheets are not considered as manufacturing activity under Central Excise. Consequently, the steel manufacturers have to seek permission under Rule 16C of Central Excise Rules 2002 from the Commissioner of Excise for sending such goods for job work. The process of cutting, slitting and printing of aluminium foils are considered as manufacture as per note 3 of chapter 76. Similarly, cutting and slitting of steel coils/sheets may also be declared as manufacturing activity.

What CII Wanted

- Exempt 4% additional duty of customs (SAD) on melting scrap of iron and steel imported by manufactures of steel.
- Insert suitable note in chapter 72 of Excise Tariff to provide that cutting and slitting of steel coils/sheets shall amount to manufacture.

What the Government Gave

Item	Excise Duty (%)			Customs Duty (%)		
	2012-13	What CII wanted	Budget 2013-14	2012-13	What CII wanted	Budget 2013-14
Iron and non-alloy steel Ingots, billets, blooms, slabs, hot/cold rolled flat products, bars, rods, angles, shapes, sections, wires etc. (7206 to 7217)	12	12	12	5	5	5
Flat rolled products of iron or non-alloy steel (7208 to 7212)	12	12	12	7.5	7.5	7.5
Stainless steel and other alloy steel Ingots, billets, hot/cold rolled flat products, bars, rods, angles, shapes, sections, wires etc. (7218 to 7229 except 7225 30 90, 7225 40 19, 7225 50, 7225 99 00)	12	12	12	5	5	5
Specified flat rolled products of alloy steel (7225 30 90, 7225 40 19, 7225 50, 7225 99 00)	12	12	12	7.5	7.5	7.5
Steam coal (2701 19 20)	1 CVD	1 CVD	2 CVD	NIL	NIL	2

Impact of Budget 2013-14

- Flat rolled products of iron or non-alloy steel, plated or coated with zinc have been exempted from export duty. It is also proposed to give this exemption retrospective effect from 1st March 2011.
- The compounded excise duty rate on stainless steel 'patta-patte' has been increased form ₹30,000 to ₹40,000 per machine per month.
- Basic customs duty on steam coal has been increased form NIL to 2% and CVD from 1% to 2%. However, basic customs duty on bituminous coal has been reduced form 5% to 2% and CVD from 6% to 2%.

Synthetic Fibres and Yarns

Industry Issues

P-Xylene is the base material used to produce intermediates PTA and MEG for synthetic fibres. P-Xylene attracts NIL customs duty where as its main feedstock naptha is having customs duty of 5%. Therefore, customs duty on naptha needs to be reduced to NIL.

Spin finish oil is a vital input in manufacture of synthetic fibres and filament yarns. Spin finish oil attracts customs duty of 7.5%. With customs duty on synthetic fibres at 5%, customs duty on spin finish oil needs to be reduced to 5% to remove the existing anomaly.

Synthetic fibres attract excise duty of 12% while there is no excise duty on cotton fibre. The differential in excise duty rates on synthetic fibres and cotton fibre needs to be reduced by reducing excise duty from 12% to 8% across the value chain of synthetic fibres to avoid inverted duty structure and CENVAT credit accumulation.

What CII Wanted

- Reduce customs duty from 5% to NIL on naptha.
- Reduce customs duty from 7.5% to 5% on spin finish oil.
- Reduce excise duty from 12% to 8% on synthetic fibres and their inputs.

What the Government Gave

Item	Excise Duty (%)			Customs Duty (%)		
	2012-13	What CII wanted	Budget 2013-14	2012-13	What CII wanted	Budget 2013-14
Fibres / Filaments						
Polyester staple fibre (PSF) (5503 20 00, 5506 20 00)	12	8	12	5	5	5
Nylon staple fibre (5503 11 00)	12	8	12	7.5	7.5	7.5
Yarns						
Polyester filament yarn (PFY) (5402, 5406 00 16) Polyester high tenacity yarn (5402 20)	12 or NIL*	12 or NIL*	12 or NIL*	5	5	5
Nylon filament yarn (NFY) (5402,5406)	12 or NIL*	12 or NIL*	12 or NIL*	7.5	7.5	7.5
Inputs						
Spin finish oil (3403 11 00)	12	12	12	7.5	5	7.5
Naptha (2710)	14	14	14	5	NIL	5

*without CENVAT credit

Impact of Budget 2013-14

- There is no change in excise as well as customs duty rate for synthetic fibres and yarns.
- Zero excise duty route, as existed prior to the budget 2011-12, has been restored on readymade garments and made ups falling under chapter 61 to 63. This will be in addition to the CENVAT route under which manufacturers have the option to pay excise duty on the final product and avail of credit of excise paid on inputs.

Textile Machinery

Industry Issues

Creation of modernization upgradation fund (TUF) similar to textile industry can benefit the textile engineering industry. This fund will help in acquisition of new technology, machinery innovation and R & D as well as joint ventures with leading textile machinery manufactures from abroad.

Customs duty on textile machines is 7.5% but certain specified machinery attract 5% customs duty. However, some of the inputs like rubber components, seamless steel tubes and ceramic compactors attract 10% customs duty. Accessories, parts and components of textile machinery fall under tariff heading 8448 and attract customs duty of 7.5% which needs to be reduced to 5%.

What CII Wanted

- Introduce Technology Up-gradation Fund for the textile engineering industry.
- Reduce customs duty from 7.5% to 5% on accessories, parts and components of textile machines falling under tariff heading 8448.

What the Government Gave

Item	Excise Duty (%)			Customs Duty (%)		
	2012-13	What CII wanted	Budget 2013-14	2012-13	What CII wanted	Budget 2013-14
Textile machinery (8444 to 8447)	12	12	12	7.5	7.5	5
Inputs						
Auxiliary machinery, parts and components for textile machinery of headings 8444 to 8447 (8448)	12	12	12	7.5	5	5

Impact of Budget 2013-14

- Customs duty on all textile machinery and parts thereof falling under headings 8444 to 8449 has been reduced from 7.5% to 5%.

Industry Issues

Customs duty on ceramic tiles is 10%, whereas inputs attract customs duty of 5%, 7.5%, and 10%. China became member of Bangkok Agreement (now known as Asia-Pacific Trade Agreement), customs duty rate on ceramic tiles from China is 4.3%. During 2011-12, import of tiles under tariff heading 6907 and 6908 from China was ₹99,313 lacs.

Import of ceramic and vitrified tiles from Sri Lanka attracts NIL customs duty under India-Sri Lanka Free Trade Agreement with effect from 18th March 2003. Customs duty on import of tiles from Malaysia is 5% under Comprehensive Economic Cooperation Agreement (CECA).

Taking these factors into account, it is imperative that the customs duty on the basic input for tiles i.e. clays should be reduced from 5% to 2.5%.

What CII Wanted

- Reduce customs duty from 5% to 2.5% on clays.

What the Government Gave

Item	Excise Duty (%)			Customs Duty (%)		
	2012-13	What CII wanted	Budget 2013-14	2012-13	What CII wanted	Budget 2013-14
Glazed ceramic tiles (6908)	12	12	12	10	10	10
Vitrified tiles, whether polished or not (6907 10 10, 6907 90 10))	12	12	12	10	10	10
Inputs						
Clays (2508 40)	NIL	NIL	NIL	5	2.5	5
Boric Acid (2810 00 20)	12	12	12	7.5	7.5	7.5

Impact of Budget 2013-14

- There is no change in customs as well as excise duty rates for tiles and their inputs.

Industry Issues

Excise duty on tractors is NIL as per excise notification 12/2012-sl.no. 277. Excise duty is also exempted vide excise notification 12/2012- sl.no. 340 on parts produced and used within the factory of manufacture of tractors. This helps the companies having single location unit in reducing the cost of their tractors.

Most of the tractors manufactures are having multi locational units and parts manufactured in one unit are transferred to other units. Such manufacturers have to pay excise duty of 12% on parts so transferred for which no CENVAT credit can be availed. This adds to their cost. The exemption of excise duty on tractor parts vide sl.no. 340 of excise notification 12/2012 needs to be extended to such cases also.

The other preferable alternative is to increase the excise duty on tractors from NIL to 6% so that the manufacturers can avail CENVAT credit whether goods are sourced form other units of the same manufacturer or purchased from suppliers. Since the CENVAT credit availed for excise on goods and service tax on input services would be offset by 6% excise on the final product, there would be no increase in price of the tractors to the customer.

What CII Wanted

- Extend the existing provision of NIL excise duty on parts of tractors when produced in any factory of the manufacturer.
- Increase the excise duty on tractors from NIL to 6%.

What the Government Gave

Item	Excise Duty (%)			Customs Duty (%)		
	2012-13	What CII wanted	Budget 2013-14	2012-13	What CII wanted	Budget 2013-14
Tractors (except road tractors for semi-trailers of engine capacity more than 1800 cc) (8701)	NIL	6	NIL	10	10	10
Inputs						
Parts of tractors (8708 or any other chapter)	12	12	12	As applicable	As applicable	As applicable
Parts used within the factory of production for manufacture of tractors (any chapter)	NIL	NIL	NIL	NA	NA	NA
Parts manufactured and transferred to other unit of same manufacturer (any chapter)	12	NIL	12	NA	NA	NA

Impact of Budget 2013-14

- The desired changed in excise duty have not been done.

Industry Issues

Tyre industry is raw material intensive and materials accounts for 72% of industry turnover. Natural rubber is the key raw material of the tyre industry with a cost of 45% of all raw materials.

Customs duty on tyres has been gradually reduced from 50% in 1996-97 to 10%, whereas, there has been no reduction in customs duty on natural rubber smoked sheets and technically specified natural rubber (TSNR) and duty on these continues at 20% since 23rd July 1996. This is an anomalous situation which has been partially corrected by reducing customs duty on these two inputs from 20% to 7.5% along with Tariff Rate Quota (TRQ) of 40,000 MT for the year 2011-12 as per sl. no. 252 of customs notification 12/2012. During the fiscal (FY. 2013-14), the gap between domestic natural production and consumption is estimated as 100,000 MT. Therefore import allowed under tariff quota for 2013-14 at 7.5% customs duty needs to be enhanced to 1 lac MT.

What CII Wanted

- Allow import of 1 lac MT of natural rubber under tariff headings 4001 21, 4001 22 and 4001 29 at 7.5% customs duty during 2013-14.

What the Government Gave

Item	Excise Duty (%)			Customs Duty (%)		
	2012-13	What CII wanted	Budget 2013-14	2012-13	What CII wanted	Budget 2013-14
Pneumatic tyres of truck, bus, car, LCV, tractor and two wheelers (4011)	12	12	12	10	10	10
Inputs						
Natural rubber-smoked sheets (4001 21 00) Natural rubber – technically specified (4001 22 00)	Cess ₹1.50/kg	Cess ₹1.50/kg	Cess ₹1.50/kg	20	20	20
Natural rubber (4001 21, 4001 22, 4001 29) imports upto 40000 MT under Tafiff Rate Quota	Cess ₹1.50/kg	Cess ₹1.50/kg	Cess ₹1.50/kg	7.5	7.5	7.5
Nylon tyre cord fabric (NTCF) (5902 10)	12	12	12	10	10	10
Polyester tyre cord fabric (5902 20)	12	12	12	5	5	5

Impact of Budget 2013-14

- No provision made for import of natural rubber at concessional customs duty of 7.5% with Tariff Rate Quota.

Annexures

Annexure I

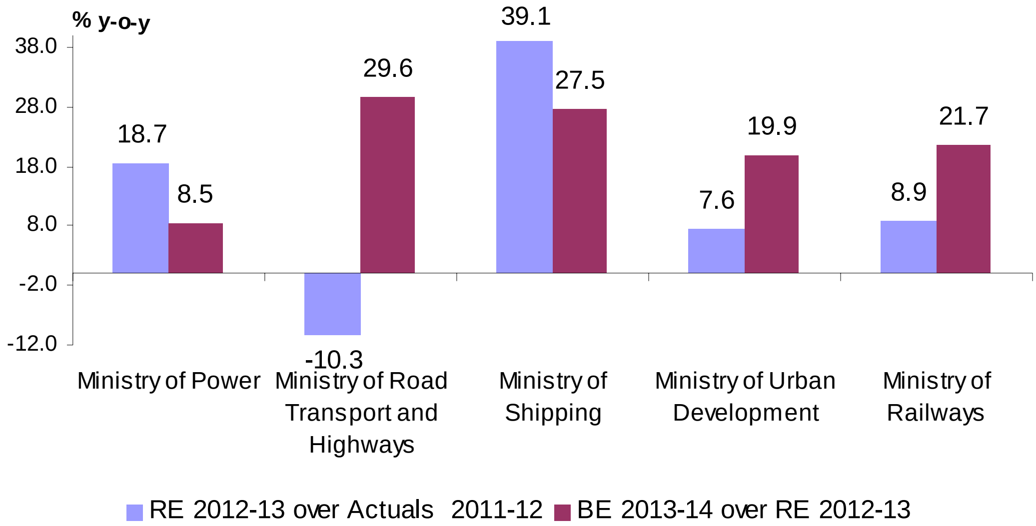
Key Indicators: Economic Survey 2012-13

Data Categories and Components	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
1. GDP and Related Indicators						
GDP (current market prices) ₹ Crore	4987090	5630063	6477827	7795313 [2R]	8974947 [1R]	10028118 [AE]
Growth Rate (y-o-y%)	16.1	12.9	15.1	20.3	15.1	11.7
GDP (factor cost 2004-05 prices) ₹ Crore	3896636	4158676	4516071	4937006 2[R]	5243582 [1R]	5503476 [AE]
Growth Rate (y-o-y%)	9.3	6.7	8.6	9.3	6.2	5.0
Savings Rate % of GDP	36.8	32.0	33.7	34.6	30.8	na
Investment Rate % of GDP	38.1	34.3	36.5	36.8	35.0	na
Per Capita Net National Income Rs	35825	40775	46249	54151	61564	68747
2. Production						
Food grains Mn Tonnes	230.8	234.5	218.1	244.5	259.3	250.1 [a]
Index of Industrial Production growth [b] y-o-y%	15.5	2.5	5.3	8.2	2.9	0.7 [c]
Electricity Generation growth %	6.3	2.7	6.6	5.5	8.1	4.6 [c]
3. Prices						
Inflation (WPI) 52-week average y-o-y%	4.7	8.1	3.8	9.6	8.9	7.6 [d]
Inflation CPI (IW) (average) y-o-y%	6.2	9.1	12.4	10.4	8.4	10.0 [d]
4. External Sector						
Export Growth (US$) % change	29.0	13.6	-3.5	40.5	21.3	-4.9 [d]
Import Growth (US$) % change	35.5	20.7	-5.0	28.2	32.3	-0.0 [d]
Current Account Balance (CAB/GDP) %	-1.3	-2.3	-2.8	-2.8	-4.2	-4.6 [e]
Foreign Exchange Reserves US$ bn	309.7	252.0	279.1	304.8	294.4	295.5 [f]
Average Exchange Rate ₹/US$	40.26	45.99	47.44	45.56	47.92	54.47 [g]
5. Money and Credit						
Broad Money (M3) (Annual) % change	21.4	19.3	16.8	16.0	15.6	11.2 [h]
Bank Credit growth % change	22.3	17.5	16.9	21.5	15.9	15.1 [h]
6. Fiscal Indicators (Centre)						
Gross Fiscal Deficit % of GDP	2.5	6.0	6.5	4.8	5.7 [i]	5.1 [j]
Revenue Deficit % of GDP	1.1	4.5	5.2	3.2	4.3 [i]	3.5 [j]
Primary Deficit % of GDP	-0.9	2.6	3.2	1.8	2.6 [i]	1.9 [j]
7. Population (Million)	1138	1154	1170	1210 [k]	na	na

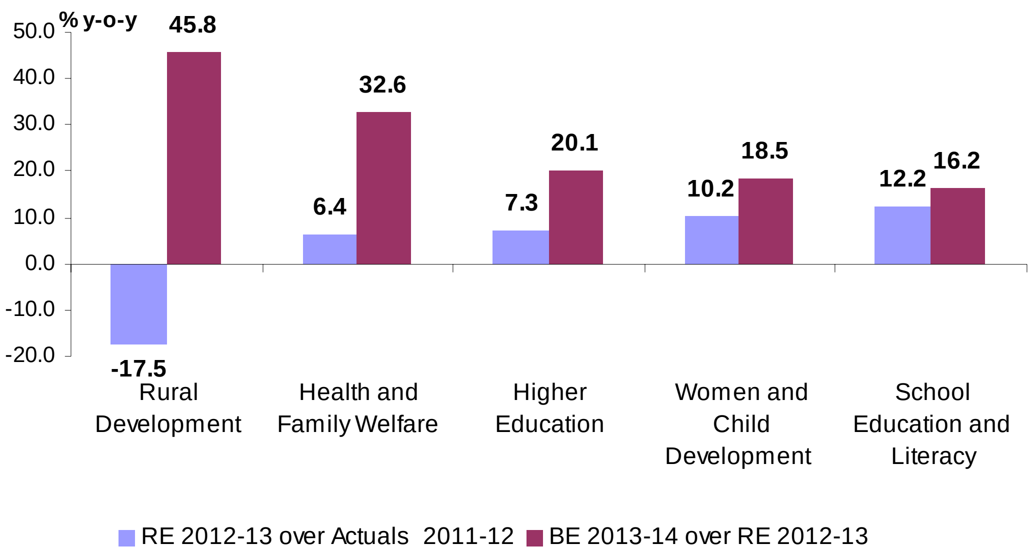
[AE] GDP figures for 2012-13 are Advance Estimates; [1R] I[st] Revised Estimates; [2R] 2[nd] Revised Estimates
na- Not Available
a Second Advance Estimates
b The Index of Industrial Production has been revised since 2005-06 on base 2004-05
c April-December 2012
d April 2012 to January 2013
e CAB to GDP ratio for 2012-13 is for the April-September 2012
f At end January, 2013
g Average exchange rate for 2012-13 (April 2012- January 2013)
h Provisional (upto December 28, 2012)
i Fiscal Indicators for 2011-12 are based on the provisional estimates (unaudited)
j Budget Estimates
k Census 2011

Annexure II

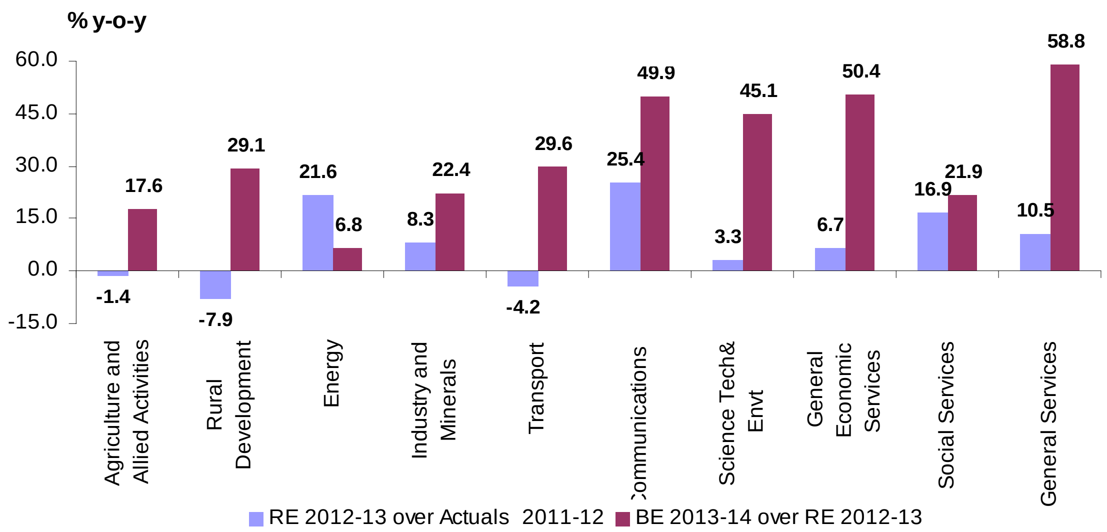
Growth in Central Plan Outlay



Source: Budget Documents



Source: Budget Documents



Source Budget Documents

Confederation of Indian Industry

The Confederation of Indian Industry (CII) works to create and sustain an environment conducive to the growth of industry in India, partnering industry and government alike through advisory and consultative processes.

CII is a non-government, not-for-profit, industry led and industry managed organisation, playing a proactive role in India's development process. Founded over 117 years ago, it is India's premier business association, with a direct membership of over 7100 organisations from the private as well as public sectors, including SMEs and MNCs, and an indirect membership of over 90,000 companies from around 250 national and regional sectoral associations.

CII catalyses change by working closely with government on policy issues, enhancing efficiency, competitiveness and expanding business opportunities for industry through a range of specialised services and global linkages. It also provides a platform for sectoral consensus building and networking. Major emphasis is laid on projecting a positive image of business, assisting industry to identify and execute corporate citizenship programmes. Partnerships with over 120 NGOs across the country carry forward our initiatives in integrated and inclusive development, which include health, education, livelihood, diversity management, skill development and water, to name a few.

The CII Theme for 2012-13, 'Reviving Economic Growth: Reforms and Governance,' accords top priority to restoring the growth trajectory of the nation, while building Global Competitiveness, Inclusivity and Sustainability. Towards this, CII advocacy will focus on structural reforms, both at the Centre and in the States, and effective governance, while taking efforts and initiatives in Affirmative Action, Skill Development, and International Engagement to the next level.

With 63 offices including 10 Centres of Excellence in India, and 7 overseas offices in Australia, China, France, Singapore, South Africa, UK, and USA, as well as institutional partnerships with 223 counterpart organisations in 90 countries, CII serves as a reference point for Indian industry and the international business community.