



## Budget Highlights 2016-17

### Summary:-

The Finance Minister presented a budget amidst low expectations on the backdrop of sluggish GDP growth; impending provisioning for 7<sup>th</sup> pay commission hikes and pressures to maintain the fiscal target as guided in the last budget to 3.5% of GDP. Against this, he did a great job.

Public expenditure has been boosted to give boost to the flagging GDP growth through higher capital spending. To address rural distress, the FM gave a big boost by increasing spending allocation on irrigation, MNREGA and rural roads with focus on new schemes to improve the earning of farmers over the next 5 years. The hikes to the salaries of central government employees as recommended by the 7<sup>th</sup> pay commission have been provided for and should be big boost to the consumer spending.

Also, the Government has acted smartly by increasing the taxes on the sectors which would be beneficiaries of the pay hikes like auto, jewellery and branded goods sector. The capitalization for banks at `250 bn came less than expectations; however FM assured higher support if need be. The budget was disappointing for Oil E&P Companies as a result of higher taxes and no import duty which would cap realizations.

Re-introduction of amnesty schemes, higher tax collection from the increase in taxes on auto, removal of some tax changes is expected to boost the revenue of the government.

For the capital markets, the fear of tinkering with long term capital gain tax did not happen which is positive. The effect of DDT on dividend income above ` 10 lakh is negative for stocks with High dividend yields.

Overall, the budget has laid for the foundation for putting the economy back on higher growth trajectory. With govt. sticking to the fiscal consolidation, RBI may surprise with a rate cut which can further boost the sentiment in the backdrop of weak global cues.

### Decisions with an immediate Impact on Markets:-

- **E&P Companies**
  - Ad Valorem Cess on Oil at 20% as against 9 USD/BBL today, Net benefit of only 2 USD/BBL at a price of USD 35/BBL. No Import duty on Oil (5% expected), no realization gains
- **Tobacco**
  - Duty on Tobacco Products except BIDs to be increased by 10% across categories positive for Tabaco, as markets were fearing a steeper rise in taxation
- **Financial Inclusion**
  - Public money should reach poor without leakages
  - Nationwide rollout of ATMs via post offices
- **Disinvestment**
  - To list government-owned general insurance companies on stock exchanges
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  - Government to open to reducing its stake in PSU banks below 50%
  - Consolidation roadmap for PSU banks next year
- **Taxation:-**
  - No change in corporate tax rate for large corporates
  - DDT of additional 10% on HNI's/HUF's having a Dividend income of over ` 10 lakh



## Key Announcements:-

- **Receipts Summary:-**
  - The government has expected ~11% increase in the receipts:
  - ~16% increase in income tax receipts from ₹12,06,084 crore in FY14-15 to ₹13,77,023 crore in FY15-16 as a result of the following measures:
  - Domestic tax payers declaring the undisclosed income and pay 30% tax and 7.5% surcharge.
  - The surcharge on income tax levied on individuals earning income of ₹1 crore or more has been increased from 12% at present to 15%.
  - An investor with an annual dividend income of ₹10 lakh or more will pay a DDT of 10%.
  - Receipts from Economic Services will increase ~60% backed by increase of Clean Environment Cess (renamed from Clean Energy Cess), on coal, lignite and peat from ₹200 per tonne to ₹400 per tonne.
  - 1% cess proposed on small petrol and CNG cars, 2.5% on diesel cars of certain capacity and 4% on other higher engine capacity vehicles and SUVs. There will also be a tax collected at source of 1% on purchase of luxury cars exceeding value of ₹10 lakh.
- **Non Planned Expenditure:-**
  - The Central Government has budgeted an increase of 9.2% in non-planned expenditure to ₹14.3 lakh crore
  - Defence expenditure is expected to rise by 10.9% to ₹2.5 lakh crore.
  - Expenditure on general services is expected to go up by 23.1% due to higher pensions and salaries on account of 7<sup>th</sup> pay commission and higher spends on General Elections slated in 2016-17.
  - However, the subsidy burden is expected to come off by 2.9% (Total subsidy expected to be ₹2.5 lakh crore) mainly due to lower fertilizer, food and petroleum subsidies.
- **Planned Expenditure (Heads of Development)**
  - **Agriculture & Allied activities**
    - Budgetary allocation in agriculture & allied activities has been increased by 20% from 2015-16(RE) to ₹12,904 crore
    - Other agricultural programme is the biggest beneficiary in this head as it receives an allocation of ₹1,722 crs in FY17, up by 75% from the revised budget FY16.
  - **Rural Development**
    - The Central outlay for Mahatma Gandhi National Rural Employment Guarantee Scheme (MNREGS) for 2016-2017 is ₹37,000 crore.
  - **Irrigation and Flood Control**
    - To form ₹20,000 crore long-term irrigation fund in NABARD
    - To allot a cumulative ₹86,500 crore rupees over five yrs for irrigation schemes
    - To bring 2.85 mn hectares under PM irrigation plan
    - To allocate ₹17,000 crore for irrigation scheme FY17
  - **Energy**
    - The total outlay for the power sector is ₹74,883 crore), out of which ₹12,200 crore) is the budgetary support.
    - The Plan outlay of Ministry of Petroleum and Natural Gas is ₹2,050 crore for Year 2016-17. ₹2,000 crore are earmarked for a scheme for LPG to BPL families.
    - Coal and Lignite: Keeping in view the importance of Energy sector for infrastructure support to the Indian Economy, the Plan outlay for Coal and Lignite for 2016-17 has been projected at ₹16,644 crore.
    - The broad aim of the Ministry is to develop and utilize new and renewable energy resources of energy for supplementing energy requirements of the country in an eco-friendly and sustainable manner. For attaining this aim a Plan outlay of ₹10,193 crore has been kept in the annual plan for the year 2016-17.



- **Transport**
  - Development of infrastructure particularly the road infrastructure is crucial for accelerating the process of economic development of the country. Keeping this in view, the budgetary support has been stepped to `55,000 crore.
  - Railways' annual plan outlay 2016-17 is `1,21,000 crore. Of this, `45,000 crore is met out of the Gross Budgetary Support, which includes `10,780 crore out of Central Road Fund.
  - Biggest cut in the allocation was in the shipping sector which stands at an allocation of `176 crore from `887 crore from the revised budget.
  - Railways budgetary allocation stands at `45,000 crore recording a rise of 41%.
- **Communications**
  - This sector has been relatively flat at an allocation of `13,805 crore with a growth in allocation of 3% over RE.
- **Science Technology & Environment**
  - Budgetary allocation in Science Technology & Environment has been increased by 16% from 2015-16(RE) to `20,926 crore.
  - There has been a 153% rise in the ecology & environment field. It stands at `3,245 crs.
- **General Economic Services**
  - Budgetary allocation in General Economic Services has been increased by 21% from 2015-16(RE) to approx. `46,000 crore.



- **Major changes in taxation for Individuals & Corporates**

Sr. No.	Individuals	Corporates
1	Limit for contribution of employer in recognized Provident and superannuation fund of ₹ 1.5 lakh p.a. for taking tax benefit. Exemption from service tax for Annuity services provided by NPS and Services provided by EPFO to employees.	Lower the corporate tax rate for the next financial year for relatively small enterprises (i.e. companies with turnover not exceeding ₹ 5 crore (in the financial year ending March 2015), to 29% plus surcharge and cess .
2	Surcharge to be raised from 12% to 15% on persons, other than companies, firms and cooperative societies having income above ₹ 1crore.	100% deduction of profits for 3 out of 5 years for startups setup during April 2016 to march 2019. MAT to apply.
3		Accelerated depreciation wherever provided in IT Act will be limited to maximum 40% from 1/4/2017.
4		100% deduction for profits to an undertaking in housing project for flats upto 30 sq. metres in four metro cities and 60 sq. metres in other cities, approved during June 2016 to March 2019 and completed in three years. MAT to apply.

- **Other major points**

- Domestic taxpayers can declare undisclosed income or such income represented in the form of any asset by paying tax at 30%, and surcharge at 7.5% and penalty at 7.5%, which is a total of 45% of the undisclosed income. Declarants will have immunity from prosecution.
- Surcharge levied at 7.5% of undisclosed income will be called Krishi Kalyan surcharge to be used for agriculture and rural economy.
- New Dispute Resolution Scheme to be introduced. No penalty in respect of cases with disputed tax up to ₹ 10 lakh. Cases with disputed tax exceeding Rs.10 lakh to be subjected to 25% of the minimum of the imposable penalty. Any pending appeal against a penalty order can also be settled by paying 25% of the minimum of the imposable penalty and tax interest on quantum addition.
- Penalty rates to be 50% of tax in case of underreporting of income and 200% of tax where there is misreporting of facts.
- For non-residents providing alternative documents to PAN card, higher TDS not to apply.



## Budget Snapshot in Figures:-

Nominal GDP					
Table 2.9 : Receipts and Expenditure of the Central Government					
(%)	2013-14	2014-15	2015-16	2015-16	2016-17
	(P)	(R.E)	(B.E)	(R.E)	(B.E)
<b>GDP at current market prices Rs tn</b>	11,334	12,694	14,217	13,720	15,254
			12%		
<b>1. Revenue receipts (a+b)</b>	<b>1,015,279</b>	<b>1,126,294</b>	<b>1,141,575</b>	<b>1,206,084</b>	<b>1,377,022</b>
(a) Tax revenue (net of States' share)	816,046	908,463	919,842	947,508	1054101
(b) Non-tax revenue	199,233	217,832	221,733	258,576	322921
<b>2. Revenue expenditure</b>	<b>1,375,590</b>	<b>1,488,780</b>	<b>1,536,047</b>	<b>1,547,673</b>	<b>1,731,037</b>
<b>4. Capital receipts</b>	<b>548,206</b>	<b>554,864</b>	<b>635,902</b>	<b>579,307</b>	<b>601,038</b>
of which:					
(a) Recovery of loans	12,502	10,886	10,753	18,905	10634
(b) Other receipt (mainly PSU disinvestment)	27,555	31,350	69,500	25,312	56,500
(c) Borrowings and other	508,149	512,628	555,649	535,090	533904
<b>5. Capital expenditure</b>	<b>187,895</b>	<b>192,378</b>	<b>241,430</b>	<b>237,718</b>	<b>247,023</b>
<b>7. Total expenditure</b>	<b>1,563,485</b>	<b>1,681,158</b>	<b>1,777,477</b>	<b>1,785,391</b>	<b>1,978,060</b>
(a) Plan expenditure	453,085	467,934	465,277	477,197	550,010
(b) Non-plan	1,110,400	1,213,224	1,312,200	1,308,194	1,428,050
8. Fiscal deficit	508,149	512,628	555,649	535,090	533,904
Fiscal Deficit (%)	<b>4.5%</b>	<b>4.0%</b>	<b>3.9%</b>	<b>3.9%</b>	<b>3.5%</b>
Revenue Deficit (%)	<b>3.2%</b>	<b>2.9%</b>	<b>2.8%</b>	<b>2.5%</b>	<b>2.3%</b>



## Budget impact on Key Sectors under Coverage

Sector	View
Agro Chemicals	Positive
Alcoholic Beverages	Positive
Auto & auto Components	Negative
Banks	Positive for PSU Banks Bankruptcy code can be positive if and when passed
Cement	Positive
Construction	Positive
Consumer Durables	Positive
Diamond, Gems and Jewellery	Negative
Entertainment	Neutral
Fertilizers	Neutral
FMCG	Positive
Logistics	Positive
Media - Print/Television/Radio	Positive for Excise Duty Removed.
Mining & Mineral products	Negative for Coal Neutral for rest
Non Ferrous Metals	Positive for Aluminium. Import duty hiked form 5% to 7.5%; Aluminium products 7.5% to 10%
Power Transmission & Distribution	Positive
Realty (micro market for 3-4 cities)	Positive for affordable housing (under 60sq mt. for non-metros, 30 sq. mt for metros) & No DDT on REIT
Refineries	Neutral
Sanitaryware	Positive Swachh Bharat Abhiyaan allocation 9,500 crores
Steel	Neutral
Telecomm-Service	
Textiles	Branded Textiles Negative Addition Excise Duty
Renewable Sector	Positive Higher capex outlay Negative Removal of accelerated depreciation
Transportation	Negative due to Cess on Diesel



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