Geojit
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Union Budget – 2008 / 09

Overall Impression:

- Largely a balanced budget keeping in mind the ensuing general elections in 2009.
- Schemes a galore to disburse money across over 1,000 central and state schemes to put lot of money under circulation, while measurement of accomplishment of purpose for which money is used, largely escapes public scrutiny.
- Fiscal and monetary discipline to take a hit with measures like waiver of farm loans, differential interest rate schemes, etc.
- GDP growth expectation contained to 8.7%-8.8% for FY 2007-08 (9.7% in FY 2006-07) due to slowdown in all sectors for variety of reasons. Economic Survey hopeful of achieving 9% target for XI plan period.

Expectations belied:

- Structural issues not addressed effectively to correct trend of slowdown in all productive segments within India, which will likely worsen further with fast deteriorating economic scenario in the western world. Putting more money in the hands of people by way of lowering taxes, spending on plan and non-plan schemes, loan waiver, etc., not going to automatically address the structural issues.
- Absence of solid proposals that could resolve all burning issues coming in the way of finalization, award and financial closure of infrastructure projects and its funding.
- Buoyancy in tax collections in an accelerated growth phase has made the government complacent in not taping alternatives like attracting more FDI by relaxing limits in sectors like banks, insurance, retail, media, etc.

Capital market perspective:

- In order to promote culture of medium-to-long-term investing, the budget has increased short term capital gain tax from 10% to 15% in line with similar level applicable for dividend distribution tax.
- Those who treat income from sale of investment as business income rather than as capital gains, the budget now allows securities transaction tax (STT) as allowable business expense instead of as hitherto available for set off against income tax payable.
- Now screen-based trading for corporate bonds, financial instruments including derivative contracts, etc., will take place on BSE / NSE. This will lead to more transparency in the transactions and better price discovery.
- Some of the minor positives described later on, will unlikely drive the market, as fundamental weaknesses of the Indian economy have not bee effectively addressed.
- Reimbursement by government of farm loan waiver will boost liquidity of banks.
- Set off of dividend distribution tax (DDT) paid by a subsidiary on dividend paid to its holding company from DDT payable by holding company on dividend distributed by it; will benefit that holding company provided it is not a subsidiary of another holding company.

Positive features of budget:

- If implemented properly, huge doses of funds being released under different schemes for agriculture, irrigation, healthcare, education, infrastructure, housing, power, etc., should be able to keep GDP growth rate at around 9% per annum and in turn, help sectors supplying goods and services to these spending points to do better.
- Reduction in direct taxes by increasing basic exemption limit for all assesses and re-working of slabs to leave more disposable money in the hands of tax payers *(a male assessee having taxable income of Rs 500,000 per annum to save Rs 45,320 in taxes)* prompting them to spend more or save more; both eventually leading to capital formation, provided structural issues are effectively addressed in separate pronouncements.
- Reduction in peak rate of excise duty from 16% to 14% would help reduce ultimate cost of products. Further reduction in duty in certain cases would help *automotive, pharma and paper sectors.*
- Reduction in CST from 3% to 2% in line with intention announced earlier.
- Raising threshold limit from Rs 8 lakh to Rs 10 lakh for levying service tax to benefit small service providers.
- Withdrawal of Banking Cash Transaction Tax with effect from April 1, 2009.

Negative features of budget:

- Complete waiver of farm loans estimated at Rs 50,000 crore given to marginal and small farmers, and one time settlement of 25% estimated at Rs 10,000 crore for loans given to other farmers; to set very bad precedent and weaken overall credit discipline in banks at times when global financial markets are grappling to come out of sub-prime crises. While banks might be reimbursed fully / partly for this hit over 3 years, it is not a healthy practice to have loan melas first and then have loan waivers - all at the expense of tax payers.

Conclusion:

- Overall political economics at play.
- Revenue and Fiscal deficits for FY 2008-09 are estimated with assumption that country’s tax revenue will increase by 17% despite reduction in direct tax and excise duty.
- In accordance with accounting policy followed by the government, Revenue and Fiscal Deficit to GDP estimates of 1% and 2.5% respectively for FY 2008-09 do not include liabilities on account subsidies on food (Rs 32,667 crore), fertilizer (Rs 30,986 crore), oil bonds (assumed at Rs 40,000 crore, as in FY 2007-08) and now loan waiver (Rs 60,000 crore). If we were to include all these, fiscal deficit would work out to a whopping 5.6%. Higher fiscal deficit means requirement of more funds, more borrowing, high interest rates and high level of inflation.
- Attached enclosure provides list of companies / sectors that would benefit / lose out from noteworthy tax proposals.

Annexures

Budget Proposals	Existing	Proposed	Companies impacted	
			Positively	Negatively
Custom Duty Changes				
Project imports	7.5%	5.0%		All engineering companies
Iron or steel melting scrap	5.0%	0.0%	Ennore Nelcast Grasim Jindal Stainless (if SS scrap is included in the list)	All sponge iron manufacturers selling sponge iron in market
Aluminum scrap	5.0%	0.0%		Hindalco
Crude and unrefined sulphur	5.0%	2.0%	Coromandel Fertilisers and commercial sulphuric manufacturers like GSFC, etc.	
Specified raw materials for tyres	10.0%	5.0%	MRF Ceat JK Tyre Apollo Tyre	
6 specified drugs / kits	10.0%	5.0%	Siemens Diagnostic	
Additional custom duty on power generation (other than mega projects) and T&D projects and goods for high voltage transmission projects.	Nil	4%	Siemens BHEL Alstom Projects Areva T&D	Tata Power, Reliance Energy, Reliance Power, Power Grid Corp., NTPC

Budget Proposals	**Existing**	**Proposed**	**Companies impacted**	
			Positively	**Negatively**
Excise Duty Changes				
General rate	16.0%	14.0%	All manufacturing companies	
All drugs (formulations)	16.0%	8.0%	All Pharmaceutical companies on domestic sales	
Anti-AIDS drugs & bulk drugs for its manufacture		Fully exempted	Cipla GSK Pharma Ranbaxy	
Small cars	16.0%	12.0%	Maruti Tata Motors	
Buses and other vehicles for transport	16.0%	12.0%	Force Motors M&M Ashok Leyland Tata Motors Swaraj Mazda Eicher Motors	
Chassis of Buses and other vehicles for transport	16% + Rs 10,000/-	12%+ Rs 10,000/-		
Two wheelers and passenger three wheelers	16.0%	12.0%	Hero Honda Bajaj Auto TVS Motors Eicher Motors Force Motors M&M	
Specified refrigeration equipment for installation of cold storage, cold room or refrigerated vehicles above 2 TR utilising power of 50 KW on end use basis		Fully exempted	Voltas Blue Star	
Aseptic packaging paper, Aseptic bags, etc.	16.0%	8.0%	Essel Propack Paper Products Flex Industries	
Wireless data modem cards		Fully exempted	R-COM Tata Teleservices	
Specified telecom / IT convergence products	16.0%	8.0%	Avaya Global Connect	
Writing, printing & packaging paper	12.0%	8.0%	Ballarpur Industries TNPL	
Water filtration and purification devices	16.0%	8.0%	Ion Exchange Thermax	
Pan Masala not containing tobacco	16.0%	8.0%	Kothari Products	
Bulk Cement	Rs 400 per ton	14% or Rs. 400 per ton, whichever is higher		All cement companies
Cement clinkers	Rs 350 per ton	Rs 450 per ton		All cement companies but not much impact, as used captively
Non-filter cigarettes	Rs 168 / 1000	Rs 819 / 1000		VST, GTC
Non-branded motor spirits and HSD	6% + Rs 13 / litre	Rs 14 / litre	All oil marketing companies	
Central Sales Tax	3.0%	2.0%	As roadmap to introduce Goods and Services Tax (GST) from April 1, 2010	

Direct tax proposals	**Companies to benefit**
U/S 80-IB, 100% deduction from profits for 5 years of hospitals set up specified areas (does not include metros and tier I cities) during April 1, 2008 and March 31, 2013.	Apollo Hospitals Fortis Healthcare Wockhardt Hospitals Max India
U/S 80-ID, 100% deduction from profits for 5 years of hotels (2 star to 4 star) located in specified districts having world heritage sites as defined by set up during April 1, 2008 and March 31, 2013.	Indian Hotels EIH Hotels Asian Hotels Hotel Leela
U/S 35, to promote outsourcing of research, weighted deduction of 125% on any payment made by a company to approved scientific associations etc., and to companies engaged in R&D will be allowed to the company making such payment.	All companies getting R&D done by other scientific associations, etc. / R&D companies, like: Biocon Ranbaxy Sun Pharma

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