Budget Expectations FY 08

Expected Performance in FY 07

- Tax Revenue collection to be higher than Budgeted Estimate.
- Planned expenditure to be higher than Budgeted Estimate.
- Primary deficit to vanish for the first time ever.
- Fiscal deficit to be far below Budgeted Estimate.

Expected positive rub off in FY 08 BE

- More tax sops as reward for honesty.
- Further rationalization of import duty, excise, stamp duty & sales tax.
- improved allocation for inclusive growth of Agri. & Infrastructure.
- Further Improved fiscal conditions.
- Thrust for infrastructure, education & rural development.

Fiscal Performance in FY 07

Primary balance should show fractional surplus for the first time ever.

- Tax Revenue collection to be 25% over BE.
- Planned expenditure to reach 4.5% of GDP.
- Total Planned expenditure to increase by 22% and form over 4.3% of GDP (4% last year).

	Budgeted	Expected
Fiscal Deficit	3.8%	3.4%
Revenue Deficit	2.1%	1.5%
Primary Balance	- 0.2	+ 0.4%

B & K Budget Expectations FY 08

Fiscal Expectations

- Primary Balance target to be in Surplus.
- Revenue Deficit target to be below 0.7% of GDP.
- Fiscal Deficit to be targeted below 3% of GDP.
- Consolidated Fiscal Deficit to be below 6% of GDP.

- Fresh Central Government borrowing may be contained at Rs. 1000 bn, down from Budgeted Rs. 1130 bn for FY07.
- Planned Expenditure under capital account will get a boost – over 50% higher.
- To target over 18% growth on total Tax Revenue growth.
- Income Tax collection to target 30% growth.
- Target growth for Total Expenditure to be over 15%.

Thrust Areas

Rural Initiatives will get major boost

Others:

- **Power.**
- **Water.**
- **Ports.**
- **Infrastructure.**
- **Tax rationalization.**

Direct Tax Expectations

- 10% surcharge in Corporate and Personal Income Tax may be removed.
- Education Cess of 2% may be continued.
- Corporate Tax on Foreign Company may reduced to 38% (from 40%) to attain tax parity with local companies.
- Dividend Distribution Tax may be cut from 14% to 12%.
- DDT on debt mutual funds will go.
- Tax Exemption investment may be raised to Rs. 1.5 lakhs, to channel in to infrastructure funding instruments.
- A new Cess for health at 2% may be introduced.

Indirect Tax Expectations

- Peak customs duty to be brought down to 10% from 12.5%. Many items could get a reduction up to 5% from current 12.5%.
- CST to be reduced to 2% and will be totally removed by FY 09
- Tax parity for inputs and finished products under VAT
- Reduce import duty for essential commodities.
- Reduce stamp duty for corporate bonds.
- Increase service tax net by adding more services.

Policy Expectations

- Oil & Gas Pipelines and LNG terminal could get status of exemptions under infrastructure projects.
- IFCI could be revamped and activated to meet the additional requirement of long term funding for infrastructure projects.
- Introduce long term infrastructure financing instrument for NRIs.
- Stamp duty rationalization – specifically for bonds for which there could be a lower and country wide uniform stamp duty.
- Measures to help develop proper corporate bond market.
- M & A related tax benefits to other sectors – Healthcare, Finance, Airlines etc.

Banking sector

- Extent M&A tax incentives voluntary takeovers by private banks, foreign banks and even urban cooperative banks.
- Tax incentives for trusts set up by ARCs and for banks contributing to the initial capital of securitization companies.
- Restoration of earlier provision for tax exemption on interest income (from Savings deposits and Bank FD).
- Provision for infrastructure funding instruments with tax benefit.

I T

- Extension of tax concessions for IT companies registered under STPI from the current dead line of FY09.

Hotel Industry

- Grant infrastructure status to budget hotels to be set up in Delhi-NCR region, to meet demand during Commonwealth Games.

Aviation

- FDI limit for other services such as Cargo, Chartered & Helicopter may be increased from current 49%.
- ATF sales tax rationalization to make the rate uniform in states with major airport.

Auto & Ancillary

- To extend 150% weighted deduction to investment in R&D for block of 5 years.
- Reduce peak customs duty.

Pharmaceuticals

- To extend 150% weighted deduction to investment in R&D for block of 5 years.(to expire in March 2007).
- Peak customs duty on Bulk Drugs to be cut to 10% (now12.5%).

Agro-Chemicals

- Excise Duty on pesticides may reduced from current 16%.
- De-reserve more chemical intermediaries for entry of large chemical companies.

FMCG

- Cigarettes to come under VAT

Construction

- Increased allocation of funds for NHDP & Bharat Nirman Programmes for rural infrastructure projects.
- Increased allocation for power, sea ports, airports, water & irrigation, oil & gas pipelines and urban infrastructure.
- Liberalization of funding norms and new instruments for long term funding of infrastructure projects.

Fertilizers

- Reduce excise duty on fuel oil used for non-feed purposes & naphtha.
- Sops for conversion of plant from naphtha based to gas, including improved availability of LNG.

Key Gains

- Increased allocation & thrust for infrastructure.
- Overall Improved purchasing power.
- Companies scaling up operations to benefit as a whole.

Key beneficiary industries

Infrastructure
Construction
Retail
Capital Goods
FMCG

AND

All companies with solid growth plans

B&K Economic Research

Batlivala & Karani Securities India Pvt Ltd

Registered Office: Room No. 3/4, 7 Lyons Range, Kolkata-700 001. Tel.: 91-033-2243 7902.

Corp Office: Union Bank Bldg 3rd Floor, Dalal Street, Fort, Mumbai 400001 India Tel: +091-22-66340000 Fax: 22702364

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