CARE Ratings' Budget Expectations for FY20

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(Industry views based on feedback received from the Ratings teams).

The Union Budget that is to be presented on the 5th of July is expected to set the tone of the approach to policy for the next five years. The Interim Budget had set the contours of the forthcoming Budget and was limited in any new changes in policies given the governance issues relating to being a pre-Elections announcement.

While various constituencies do have their share of demand on policy, the formulation of the budget will be challenged by the actual fiscal outcomes for FY19 where revenue fell short of the revised estimates put out earlier. This will make it more challenging to even retain the Interim Budget numbers as it implies higher growth in revenue to justify the expenditure that was targeted.

The structure of this Report is in two parts. In the first section we highlight the macro aspects of the Budget and the challenges that lie in balancing the accounts.

In the second section, an industry perspective is provided. Demands from various industries such as BFSI, infrastructure, automobiles, aviation, healthcare, metals, agriculture, oil & gas, retail, telecom, IT and ITeS and many others are covered in this Report. While many demands mentioned here have not been met since a long time, we do hope that some are addressed in this Budget. It is also admitted that the demand for changes in GST may not be taken up in the Budget and could be set by the GST Council at a later date.

Macro-economics of the Budget

The budget for FY20, to be announced on July 5, 2019, comes against the backdrop of weaker domestic economic growth (with GDP growth expected to be 6.8% in FY19 compared with the 7.17% growth in the previous year) and lower revenue collections. It has also been pointed out that consumption has slowed down and some remedial action is required. From the point of view of the government certain action can be taken to revive and accelerate consumption which can lead to higher economic growth in FY20.

In this section, the fiscal performance and progress of the government during FY19 has been examined in conjunction with the budget provisions and estimates that were made for FY19. This would be the basis on which expectations may be formed for the FY20 Budget.

Performance of the FY19 Budget

Table 1: Key fiscal parameters

Rs. lakh crore	FY18	FY19 (RE)	FY19(A)*	FY20(BE)
Revenue Receipts	14.35	17.30	15.64	19.78
Tax Revenue	12.42	14.84	13.17	17.05
Non Tax Revenue	1.93	2.45	2.46	2.73
Capital Receipts	7.07	7.28	7.48	8.07
Disinvestment	1.00	0.80	0.85	0.90
Borrowings and other liabilities	5.91	6.34	6.45	7.04
Total Receipts	21.42	24.57	23.11	27.84
Revenue Expenditure	18.79	21.41	20.08	24.48
Capital Expenditure	2.63	3.17	3.03	3.36
Total Expenditure	21.42	24.57	23.11	27.84
Revenue Deficit	4.44	4.11	4.45	4.70
RD to GDP (%)	2.60	2.20	2.34	2.20
Fiscal Deficit	5.91	6.34	6.45	7.04
FD to GDP (%)	3.5	3.4	3.4	3.4

* From Controller General of Accounts
Source: Budget Documents

- ***Lower revenue collections and stable non-tax revenue collections***

- In FY19, the total receipts (as per Comptroller General of Accounts' provisional estimates) have witnessed a shortfall of Rs. 1.46 lakh crore, when compared with the revised estimates for FY19.
- Revenue receipts of the government during FY19 have been 10% lower than the revised estimate in the budget. This was mainly on account of lower tax revenue collections viz; lower IGST, customs, union excise duty and service tax, corporation tax.
- The non-tax revenue collections during the year are in line with the estimated Rs. 2.46 lakh crores.

- ***Higher disinvestment proceeds***

- Disinvestment proceeds for FY19 stood at Rs 85,000 crs during FY19, 6.2% higher than the revised estimate for FY19 (Rs. 80,000 cr).

- *Government continues to incur its intractable expenditure commitments*

Table 2: Major components of Revenue Expenditure

Rs. Cr.	FY18	FY19 (RE)	FY19(A)	FY20 (BE)
Interest	**528,952**	**587,570**	**582,675**	**665,061**
Pensions	145,745	166,618	NA	174,300
Subsidies	**191,183**	**266,206**	**197,064**	**296,684**
Fertilizers	66,441	70,075	70,597	74,986
Food	100,282	171,298	101,903	184,220
Petroleum	24,460	24,833	24,564	37,478
MGNREGA	55,166	61,084	NA	60,000
PM-Kisan	-	20,000	NA	75,000*
Defence (Revenue)	284,273	311,212	308,593	322,762
Sub-total	**1,205,319**	**1,412,690**	**1,088,332**	**1,593,807**
Revenue expenditure	**1,878,835**	**2,140,612**	**2,008,463**	**2,447,907**

Source: Budget Documents *: Has been increased to Rs 87,000 cr

- The government continued to incur higher expenditure towards revenue account, which accounted for 87% of the total expenditure during FY19. The revenue expenditure was 6% lower than the revised estimates in FY19.
- 48% of the revenue expenditure was expended towards interest, subsidies and pensions.
  - The expenditure on subsidies was 40% lower than the budgeted target mainly on account of lower expenditure incurred towards food subsidy. This was rolled over to the next fiscal and associated with higher borrowings off budget by FCI to finance the cost.
- Around 2/3 of revenue expenditure for FY20 is already almost committed and cannot be reduced.

- The government has incurred marginally lower expenditure towards capital creation, 4% lower than the revised estimate of capital expenditure in FY19. It mainly comprised of expenditure towards defense, railways, road, transport and highways (nearly 70% of total capex).

Table 3: Focus areas of capital outlay

Rs. Cr	FY18	FY19 (RE)	FY19	FY20 (BE)
Capital Expenditure	263,140	316,623	302,959	336,293
Atomic Energy	5,603	8,663	8,742	8,107
Civil Aviation	1,837	4,000	3,976	25
Defence services	90,438	93,982	94,938	103,380
Health and Family Welfare	3,067	2,465	2,361	1,751
Petroleum and Natural Gas	1,131	2,001	1,908	1,667
Power	1,941	2,076	2,043	2,582
Railways	43,418	53,060	52,844	64,587
Road, Transport and Highways	50,752	68,564	67,646	72,025

Source: Budget Documents

FY20 budget expectations

- ***Total receipts:*** In order to maintain the size of the budget at Rs. 27.84 lakh crore in FY20, the government needs to fill in the gap of Rs. 1.67 lakh crore in the tax receipts[1]. This is important because the interim Budget had projected growth of 14.9% in tax receipts in FY20 based on the RE numbers for FY19. With the actual numbers coming lower by this amount, tax receipts have to now increase by double the growth rate of 29.5%. GDP growth in nominal terms was projected at 11.5%, which may be on the higher side given that RBI has called down the real GDP growth as well as

[1] The gap between FY19 (Actual) and FY19 (Revised Estimates).

inflation. A decline in expected GDP growth of 11.5% to 11% would make tax collections less buoyant. Under these conditions it would be difficult to garner higher revenue through the 'buoyancy effect'.

Some of the revenue sources for the government could be

- *Transfer of surplus from the RBI*- The transfer of surplus from the RBI to the government can be one of the sources to meet the shortfalls in the revenues, which are expected to be around Rs. 1-2 lakh crore to the government. However, the transfer could take place in a phased manner. A lot depends on what the special Committee recommends.
- *Disinvestments:* The disinvestment target could be increased to Rs. 1 –Rs. 1.2 lakh crore for FY20 from the existing Rs. 90,000 crore.
- *Additional borrowings from the market, as the last resort.*

- ***Revenue expenditure:*** The revenue expenditure of the government could go up with the extension of Prime Minister Kisan Samman Nidhi Yojana (PM-Kisan) as minimum income support to all farmers by way of transferring Rs. 6,000 per year. From the budgeted amount of Rs 75,000 the amount has already been raised to Rs 87,000 cr. The allocation towards MGNREGA will be maintained at Rs. 60,000 cr. As these are cash based payments, it may be expected that there will be a positive thrust to consumption expenditure.

  - ***Fiscal deficit target:*** Fiscal deficit target could be in the range of 3.4%-3.5%.

  - ***Tax proposals***
    - *Corporate tax rate:* There has been demand to lower corporate tax rate from 30% to 25% for all companies which may be considered this time.
    - *Income tax rate cuts:* In order to spur the consumption, there is a likelihood of revision in the tax slabs or the tax rate of Rs. 5-10 lakhs could be lowered from current 20% to 15%.

- ***Bank re-capitalization:*** No allocation was made towards bank recapitalization in FY20 interim budget. Given the fiscal constraint, the capital infusion in the public sector banks could be done by issuances of recapitalization bonds as they tend to be budget neutral. Alternatively a part of the released reserves of the RBI may be used for this purpose.

However, all these demands have to weighed against the potential loss of tax revenue which will be hard to compensate given the limited buoyancy on account of GDP growth likely to be lower than what was projected in February.

Industry wise expectations of duties and allocations from Budget FY20

I. Agri and agri-allied industries

1. Fertilizers

Allocations

The fertilizer industry, during the interim budget received Rs 0.7 lakh crore as subsidies where Rs 0.5lakh crore was earmarked as the urea subsidy and the remaining Rs 0.2 lakh crore was to be given as the nutrient based subsidy (NBS).

The industry expects an increase in allocation towards the fertilizer subsidy especially that of the nutrient based subsidy. The focus of the government is to improve the agricultural sphere of the nation and to boost the farmer's income. In order to achieve the aforementioned goal, the production of fertilizers will have to be increased as it would help in increasing the productivity of land and farm produce.

Increase in allocation towards the nutrient based subsidy will encourage the production of decontrolled fertilizers and promote a more balanced usage of fertilizers.

2. Sugar

Allocations

- It is likely that the government will continue to make allocations towards schemes for development of sugar industry and facilitation of export amid high inventory level. Further, the government is likely to extend the monthly buffer stock quota which is currently effective till June 2019.
- With the government aiming to increase diversion of sugarcane towards ethanol, we may see higher loan allocation to sugar mills for production of ethanol.
- The Minimum Selling Price (MSP) of sugar was revised from Rs.29 per kg to Rs.31 per kg in February 2019. Hence, the likelihood of any further upward revision of MSP is low.

3. Edible oils

Duties

- We expect the government to revise the duty structure and correct the duty differential for palm oil imported from Malaysia. In January 2019, the import duty on crude palm oil imported from Malaysia was reduced to 40% from 44% and that on refined palm oil was cut to 45% from 54% which brought down the duty differential to 5% from 10%. The duty differential for Indonesian palm oil was retained at 10%.

Allocations

- The government had released an agenda note on oilseeds production by 2022 in September 2018 and the predominant idea of the agenda is to reduce India's edible oil imports dependency and increase domestic production. With this aim, we expect the government would increase fund allocation for National Mission on Oil Seed and Oil Palm scheme as the scheme envisages increase in output of vegetable oils.

II. Energy

1. Renewable power

Solar energy

- GST on solar project

Current GST rate		Expected GST rate	
70% project cost	5%	100% project cost	5%
Remaining 30%	18%		

Currently 70% of the project cost attracts 5% GST and the remaining 30% attracts 18%. So the effective rate of the GST comes to 8.9%, which is considerably high compared with ~2% in pre-GST era.

- India will shift to a 20% slab of safeguard duty next month, with this safeguard duty should be applicable for imports of solar cell from all the countries rather than from some selective countries so as to stop its rerouting.
- Solar rooftop capacity was 1.97GW as on May 31, 2019 against a target of achieving 40 GW by 2022. Policy initiatives to incentivize discoms for achieving solar rooftop targets need to be introduced.

Wind Energy

- Wind turbine generator (WTG) manufacturers should be given incentives so that the cost of WTGs reduces which could provide some breather to already ailing WTG manufacturers.
- Cancellation of auctions by state agencies not to be allowed once confirmed to increase confidence of developers.
- Increased allocation for Ministry of New and Renewable Energy to improve pace of installation of renewable energy capacity to achieve 2022 target of 175 GW which has now been further increased to 225 GW.
- 80IA should be re-introduced for solar and wind projects with project size less than 20 MW.

2. Oil and Gas

Duties

The government wants to transform India into a gas based economy and 47% of natural gas consumption is met through LNG imports. The industry expects LNG customs duty to be waived off completely from the current 2.5%, in order to benefit domestic regasification terminals.

Allocations

The oil and gas industry, during the interim budget received Rs 0.4 lakh crore as subsidies where Rs 0.3 lakh crore was earmarked as the LPG subsidy and the remaining Rs 0.04 lakh crore was to be given as the kerosene subsidy.

Over the years, kerosene consumption has decreased and penetration of LPG has gained traction. Kerosene consumption declined by 29.6% and 7.9% during FY18 and FY19 respectively because of reduced allocation to states and voluntary surrender of Public Distribution System quota by a few states. The government should now completely stop giving kerosene subsidies and focus on only subsidising LPG.

The Government plans to disburse LPG connections to 80 million households covering all poor families under the Pradhan Mantri Ujjwala Yojana (PMUY). So far, 71.9 million households have received a LPG connection but the rate of refills has been less than the average refill rate. The subsidy earmarked towards kerosene could be diverted towards the LPG subsidy which can provide aid in the rate of refills.

III. Infrastructure

- We expect the allocation to infrastructure sector to be in-line with Interim budget's overall allocation of approximately ~₹ 5 trillion.
- We expect more special packages for dedicated segments of infrastructure projects for timely completion of projects already under-implementation.
- A one-time package for completion of long-stuck projects from NHDP which have now been combined with Bharatmala Pariyojana would be a enabling step, helping both developers as well as help in completion of long-pending projects. This package should be in-addition to the outlay for Ministry of Roads Highways and Transport (MoRTH). We expect the allocation to road sector in line with
- Railways & Coal sector: Special package for coal sector for development of railway infrastructure around coal-mines for speedy-evacuation and transportation.
- Railways: Expect a technology upgrade scheme especially for the freight division of Indian railways and the Government would make an initial allocation for initiation and subsequent implementation of the scheme. "Make In India" incentives for the railways sector might be announced.
- As the Government has near-achieved its target to electrify 100% households in the country, the focus should shift back to providing fiscal support to discoms who have been able to achieve their UDAY targets as envisaged earlier.
- We expect continuity in terms of over 70% of the capital outlay expected to be made for Roads & highways, Railways and Defence segment.

Housing and Real Estate:

Capital Markets: Reduction in the holding period of Real Estate Investment Trust (ReITs) to be made in line with listed equity instruments to be eligible for "Long-Term Capital Asset" benefit, 12 months vs 36 month applicable currently).

Allocations

Pradhan Mantri Awas Yojana: We expect the government to make an additional allocation over ~₹ 26,000 crore allocation made during Interim Budget for Pradhan Mantri Awas Yojana. We expect higher allocation towards completion of Affordable Housing projects in order to achieve targets under PMAY by 2022. We also expect an additional allocation towards Interest Subsidy scheme ~₹ 1,500 crore. Also, benefits for affordable housing under Section 80-IBA might be extended further for housing projects approved till 31st March, 2021, from the existing March 31, 2020.

IV. Manufacturing and Services

1. Aviation

- Bringing ATF under GST and allocating a package to incentivize states for a possible loss of revenue is an expected move.
- We also expect an increased allocation to development of airports, especially development of regional airports into international airports.

2. Automobiles

Duties

- Industry expects subsidy on the battery and lithium imports or incentives to the companies to manufacturing units in India. The industry also expects additional funding from government to the support infrastructure – charging infra and robust smart electricity grid to take the additional load.
- The Society of Automobile Industry (SIAM) wants the government to reduce the current tax incidence of 28% for all categories and bring it down to 18% to spur demand in the current sluggish market. Also, in September 2017, the cess was increased to 17%, 20% and 22% from the earlier rate of 15% for mid-sized and large (luxury, SUVs and MUVs) passenger cars. This cess rate can be revised downward to provide the required push to the auto industry.
- Also, to get polluting old vehicles off the road, SIAM has proposed an incentive-based scrappage scheme.
- To promote 'Make in India' initiative and support local manufacturing, SIAM asked the ministry for an increase applied customs duty on fully imported commercial vehicles (CV) to 40% from 25% and reduce the customs duty on semi-knocked down CVs to 20% from 25% for promoting local value addition.

Allocations

- Recently, in February 2019, the programme on Faster Adoption of Manufacturing of Hybrid and Electric Vehicles (FAME) scheme got a clearance of Rs 10,000 crore from Union Cabinet to promote clean fuel technology cars. The scheme was implemented from April 1, 2019 with the allocated amount being laid out over a period of 3 years and will support 10 lakh electric two wheelers, 5 lakh three wheelers, 55,000 passenger vehicles and 7,000 buses. The industry expects the government to continue the fund allocation to FAME II policy to support the transition first to BS-VI (Bharat Stage – VI) emission norms by 2020, post which the industry would be gearing for transformation of moving completely towards Electric vehicles (EVs) by 2030.
- The government to encourage R&D spends by companies in India with restoration of 200% weighted deduction on R&D expenditures - move that will auger well for the industry that will shift to BS-VI emission norms from April 1, 2020 and to electric vehicles by 2030
- Along with these, government's focus on rural development (positive for tractors, passenger cars and two-wheelers segment), infrastructure and affordable housing (positive for commercial vehicles segment), lowering of direct taxes on income in the interim budget 2019-20 (higher disposable income – positive for passenger vehicles and two-wheelers), allocation of funds to skill development centres (technical skills for auto industry) is expected to benefit the automobile industry going forward
- Similarly, fund allocation towards MNREGA at Rs. 60,000 crore announced in the interim budget (if maintained or increased), is likely to reduce the volatility in the rural income leading to higher demand from Tier 3 towns and rural India for entry level motorcycles and passenger vehicles.

3. **Drugs & Pharmaceuticals**

Allocations

- Indian pharmaceutical players have faced severe headwinds on account of increase in raw material prices (especially key starting materials and intermediates) denting not only the profitability margins of the players but also has caused concern for national security to provide essential drugs. Considering this, it is expected that the government may take initiatives to set up the SEZs exclusively dedicated for manufacturing the key starting materials and intermediates and also provide various sops for setting up the same.
- The government in order to increase the scope of affordability of medicines has started Jan Aushadhi scheme by setting up the stores. Going forward the government may increase its focus to raise the number of medical stores to enhance their accessibility.

4. **Healthcare**

Allocations

- To meet the objective of accessibility and affordability of health care to all, the healthcare sector will remain the focus area of government in the upcoming budget. It is expected to concentrate on development of healthcare infrastructure most probably through public private partnership (PPP).
- We expect significant allocation of funds towards the government's flagship program Ayushman Bharat Scheme that was officially implemented in September 2018.
- The budget is also likely to see some favourable changes in taxes for manufacturing of medical equipments to encourage domestic production under Make in India campaign.

5. **Hotels & Tourism**

Allocations

- One of the major challenges for the tourism industry in India continues to be the availability of adequate infrastructure facilities such as air, ground and port infrastructure, and tourist service infrastructure (hotels). Hospitality industry has maintained a long standing demand from the government for Infrastructure & Industry status for projects with investments over Rs 50 crore. Also, rationalization of GST rates on premium segment hotels (from 28% to 18% or 12%) can boost investments along with increasing demand for the category.
- The industry needs more resources to create new infrastructure and develop tourist packages along with publicity on the huge potential the country has by developing areas that are not usual tourist destinations. Also, developing tourism, particularly in the remote locations, is one of the top priorities of the country.
- Industry wants the government to announce measures in the budget to promote investment in the tourism sector
  We expect the allocation to tourism ministry to be higher in the budget 2019-20 vis-à-vis last year.

6. **Textiles**

Duties

- The industry wants the government to let the entire value chain from yarn to readymade garments & apparels get refunds on taxes and duties.

Allocations

- The government proposed Rs 5,832 crore budgetary allocations for the textile ministry for 2019-20 in the interim budget, which is over 16% lower than the last fiscal. The industry, however, expects a higher allocation of over Rs 7,000 crore to meet the obligations of the industry under the Amended Technology Upgradation Fund Scheme (ATUFs) and Remission of State Levies (ROSL) scheme. Also, the industry wants the government to include cotton yarn and fabrics as well under the ROSL scheme.
- Allocate funds to the special package for the knitwear sector to make domestic manufacturers competitive.

7. Consumer Durables

Duties

- The consumer electronics goods industry wants the government to lower the GST rate on appliances such as large screen televisions, air-conditioners and refrigerators to 12% to push demand in the domestic market for such products that are no longer luxury but necessities, according to the industry. Also, industry wants the government to lower GST rate on TVs above 32 inches to 18% from the current 28% to drive consumer demand.
- Also, TV manufacturers are looking for exemption of basic custom duty on imported TV panels that are domestically assembled to boost demand.

Allocations

- The government in past few years introduced initiatives such as 'Digital India' and demonetisation that provided the much needed boost to digitisation of the country. The durables industry now wants the government to focus on increasing digital penetration with provisions in the upcoming budget.

8. Retail

Duties

- The Retail Association of India (RAI) has recommended that the GST on branded /unbranded cereals and food grains should be treated at par and declared tax free. Currently, branded cereals and food grains attract a 5% levy under the GST regime.
- RAI also wants the government to prioritize and introduce 'Tax Refund for Tourists' (TRT) scheme as shopping is an important part of tourism and to encourage such tourists to buy from Indian retail shops. This is expected to not only boost tourism, but also consumption.
- RAI also suggested that the threshold for 5% tax slab on GST on apparels and clothing should be increased to Rs 2,000 per piece from the current Rs 1,000 per piece. Currently 12% GST is applicable on all types of apparels and clothing of sale value exceeding Rs 1,000 per piece.
- Also, RAI wants the government to allow refund on accumulated input tax credit (ITC) accrued on account of input services and capital goods, where input tax is higher at 18% than the output GST.

Allocations

- The retail industry wants the government to form a 'National Retail Trade Policy' to promote ease of doing business in the country and address concerns with regards to sections 132A of the Finance Bill.

- Also, in order to promote and strengthen digitization, RAI wants the government to make accepting digital payments cheaper than cash for the retailers. Currently, POS machines and high MDR rates continue to cause hindrances in large-scale adoption of digital payments.

9. BFSI

- Allocate additional funds for PSB recapitalization or undertake the same in a cash neutral manner and also incentivize performers to lend
- Propose consolidation by merger of PSBs to increase size for dealing with NPAs and lower recapitalization requirements
- Reduce procedures and policies to popularize investment vehicles such as InviTs, REITs, etc.
- Strengthen IBC/ NCLT for faster debt resolution
- Incentivize digital payments and digital banking

10. Paper

Duties

- Increase Customs Duty on Paper and Paperboard from the current level
- Keep paper and paper products in negative list while reviewing the existing and formulating new FTAs and agreements
- Create a policy on waste paper management in accordance with e-Waste (Management and Handling) Rules 2011
- Import safeguards and/or stringent environmental norms for the import of waste paper
- Have a uniform GST rates on all paper grades

11. Education

Allocations

- Additional funds for teacher training and school infrastructure to boost learning outcomes
- Additional funds for capacity building at existing central institutions
- Scholarships for students in higher education who are from an economically or social weaker section of the society
- Increase practical skill training for the youth to improve employment prospects

Duties

- Provide additional tax benefits to institutions executing such skill enhancement programs
- Zero rate GST on all education-related products and services

12. Warehousing

Allocations

- Increase allocation to build/ modernize agricultural warehouses.
- Specific fund allocation to warehousing within RIDF to build warehouses in rural areas.

Duties

- As agri commodities are fully exempt from GST, services linked to them should also be exempted; however warehousing is subject to GST which increases costs. Warehousing for agriculture should be zero rated.

13. Media and Entertainment

- India is an under penetrated market with just 8 screens per million people. The requirements for obtaining a cinema license are archaic and need updation. The industry expects single window clearance mechanism for setting up screens, along with tax holiday for setting up new multiplexes or for conversion of single screen to multiplexes.
- Lowering of license fee of radio for operating in smaller cities.
- Grant infrastructure status which will aid it in availing better financing options, given the high investments required for digitization, technology upgradation and setting up of multiplex theatres, etc.
- Include media and entertainment industry in the definition of "industrial undertaking" under sec72A of the Income Tax act, which allows carry forward and set off of losses. The digitization process and the deployment of set top boxes are heavy capital oriented and require huge investments forcing amalgamations. Thus, they should be allowed to set off accumulated losses and unabsorbed depreciation allowances to be carried forward.
- Appropriate measures to combat piracy, which is one of the biggest causes of depleting revenues of film exhibition players.
- Increase the exemption limit for individual income tax or reduce personal tax rates, which will lead to increase in disposable income and improve spending on recreational activities by individuals.

14. IT & ITeS

- Introduce weighted deduction or tax incentives on R&D activities carried out by companies engaged in the IT services industry.
- In order to promote skill development in the industry, tax incentives on skill development expenditure incurred by IT companies should be made eligible for deduction.
- The budget should focus on offering additional benefits for encouraging digital payments.
- Units set up in Special Economic Zones (SEZ) and commencing operations on or before March 31, 2020 are only eligible for direct tax incentives. Expectation is providing tax incentives to unit's setup in special economic zones beyond March 2020.
- Reduction in Minimum Alternative Tax (MAT) for SEZ from current rate of 18.5%.
- Long term capital gains arising from the sale of shares of unlisted companies should be exempt from tax to encourage investment in start-ups.

15. Gems and Jewellery

- Expecting reduction in customs duty on gold from 10% to 4%, which will help curb illegal activities like smuggling of the precious metal, increase affordability of gold jewellery in the domestic market and enhance cost competitiveness of Indian gold jewellery manufacturers in the export market.
- Industry demands exemption from payment of IGST on re-import of goods exported during overseas exhibitions/ consignments/ export promotion tours. It will promote ease of doing business, increase participation of Indian CPD processors in international market fairs and ease liquidity pressure of CPD processors.
- Expect setting up of Special Notified Zones for import and trading of rough diamonds which will allow diamond mining companies to sell their rough diamonds directly in India. The mining companies will be taxed to the extent of invoices raised to Indian companies eliminating middle men involved in trade. This will help India to become a rough diamond trading hub; and especially help small diamond polishing units in India.

16. Telecom

Allocations

- The telecom industry looks forward for a flat Spectrum Usage Charges (SUC) rate and cut in license fee.
- With the approval of National Digital Communications Policy 2018 in September 2018, the government aims to connect, propel and secure India with the help of digitization. Therefore, it is likely that the government will increase allocation of funds towards the development of telecom infrastructure in rural and remote areas which is expected to result in higher funds for Universal Service Obligation Fund (USOF).

V. Metals and Mining

1. Aluminium

Duties

Low import duty on aluminium scrap has led to an increase in its imports by 20.3% during FY19. Producers find this an issue as it impedes with the production of primary aluminium. The industry expects the government to increase the import duty on aluminium scrap from the current 2.5% to 10% which would be in line with other base metals such as copper, lead and zinc.

The industry also expects an increase in the import duty on primary aluminium from 7.5% to 10%.

Allocations

The industry also expects a surety in terms of supply for coal as aluminium is a highly power-intensive industry and producers have always had an issue with coal procurement due to the coal linkage policy which has led to the increase in the cost of production.

2. Iron Ore

Duties

The current low import duty on iron ore, which is the main raw material for steel, is encouraging imports in the country and adversely affecting domestic producers to a great extent. In FY19, imports rose to 12.8 mn tonnes, highest in almost two decades. The industry expects an increase of customs duty on iron ore and iron ore pellets from the current 2.5%, to protect the domestic miners.

3. Steel

Duties

- Decrease in customs duty on different types of coals mainly (coking coal and met coke) is expected.
- An increase in customs duty on specific grades of steel, which has seen significant increase in imports is expected.
- Additional measures to curb imports from those countries with whom India has a Free Trade Agreement (FTA) is likely.
- The industry seeks correction in inverted duty structure on HRC and CRC.

Allocations

- The government is expected to continue to spend on infrastructure and construction. This is likely to result in higher budget allocation for these sectors which will provide support to the steel industry.
- The budget allocation for steel industry is expected to give significance to domestic production of steel that involves high end value added steel like automotive steel for high end applications, electrical steel (CRGO), special steel and alloys for power equipment, aerospace, defence and nuclear applications, rails for railways among others.