



Prime WORD

Hello Everyone,

A government stumbling from one scam to another, its credibility hitting a new low following, among others, runaway inflation in a land whose head of government is an economist of excellence, was expected to come out with something surreal and out of the box so that people would sit up and take notice.

Alas the-sit-up-and-take-notice had happened the previous day when England, helped by their staid captain, Andrew Strauss, and aided by some exceptional club-level bowling by the Indians nearly chased down 339 in the World Cup league phase. In the hungamma, the stellar performance of the God of cricket, Sachin Tendulkar, was forgotten.

Still earlier, Pranab da's friend, Mamta Didi, had chugged the railway along the track that would take her to Writer's Building making many crib that she was acting as the Indian Railway Minister for West Bengal. That she had in her two years' stint whitewashed India's best known case of a Railway turnaround is another matter.

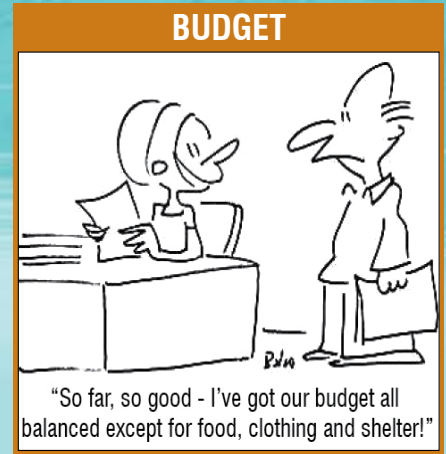
The Indian economy has grown at 8.6% meaning it continues to be the second fastest growing economy in the world, Pranab Mukherjee's budget hasn't set the Ganges on fire. Given its tinkering on tax slabs, revised definition of Senior Citizen and Super Senior Citizen, there is a definitive absence of the big idea. Corporate India has welcomed it, the Opposition has slammed it and the government has patted itself on its back.

Elsewhere in this issue you will read a Primer of the Budget and about Ms. Banerjee's rail bhashan. Prof SRK writes about the very pressing issues that this budget ought to (when he wrote) handle. Melwin Jose, a chennai based CA provides an insight into how the markets have, in the past, behaved pre and post budget raising perhaps the basic issue as to whether all this noise about the budget does at all affect the market. And S Krishna ACA writes about that tamasha called budget.

While the budget will hold our attention for the next few days, a far more fundamental question is should we not see path breaking reforms like DTC and GST come in quick and fast. These are what will hold out a promise for the future.

Cheers

Prime Team



INSIDE

All about Budget-----	2
M-Express arrives-----	3
Budget Glossary-----	3
Prof SRK says, "To make omelettes you have to break eggs"-----	4
Budget and Stock Market-----	5
Budget 2011-12 Snapshot -----	6
Indirect Tax amendments-----	6
Big B has something for everybody-----	7
Finance Mantris -----	8

COMING UP

Analysis of "Union Budget 2011" - Panel Discussion

on 1st March 2011 - Tuesday at 6.00 pm.

Panelists: **R Bupathy**, FCA, Past President ICAI, **Vijay Mantri**, MD & CEO, Pramerica Asset Managers Pvt Ltd, Mumbai, **M R Sivaraman**, former Revenue Secretary, Government of India, **A K Narayan**, President, Tamilnadu Investors Association

Anchor: **V Pattabhi Ram**

Venue: **Naradha Ghana Sabha**
T T K Road, Alwarpet, Chennai 18
(Please be seated at 5.45 pm)

IPCC 33rd Session Online Registration commences on Wednesday, 2nd March 2011 from 7 am.

ALL ABOUT BUDGET

What is a budget?

A budget (inspired by the French word, *bougette*, meaning purse) is a list of all expected revenues and expenses of the country. It outlines a nation's financial and operational goals. So the Budget may be thought of as an action plan.

Why do we need the budget?

It is not as if the government can tax, borrow and spend money the way it likes. Nor for that matter can it print notes. Since there is a limit to the resources, the need for proper budgeting arises.

Who prepares the govt budget?

United Kingdom: The UK Budget is prepared by the Treasury under the direction of the Chancellor of the Exchequer. Parliament rarely makes any significant amendments.

India: The Budget of India is prepared by the Budget division of Department of Economic Affairs

What is a budget day?

Budget Day is the day that a government presents its Budget to a legislature for approval

Who decides the Budget day in India?

In India, the Budget is presented to Parliament on such date as is fixed by the President. In an election year, Budget may be presented twice -- first to secure vote on account for a few months and later in full.

Who draws the timetable for Budget?

Timetable is drawn by the Business Advisory Committee (BAC) of Parliament. In the schedule drawn up by the BAC, there is a fixed period of discussion for each ministry.

Why Budget is tabled usually on the last day of February?

The Finance Minister is required to submit the Budget to Parliament usually on the last day of February so that



the Lok Sabha has one month to review and modify the Budget proposals. In India the fiscal year begins on April 1.

What happens if the Budget is not approved by 1st April?

The Constitution empowers Lok Sabha to grant a Vote-on-Account so that the government can continue with the necessary expenditure into the new fiscal, before the Budget proposals actually get passed after necessary discussions.

Is it compulsory to have budget for every year?

Yes; under Article 112 of the Constitution, a Statement of estimated receipts and expenditure of the Union Government has to be laid before the Parliament in respect of every financial year running from 1st April to 31st March.

What is the Railway Budget?

The Budget of the Indian Railways is presented separately to Parliament, although the receipts and expenditure of the Railways form part of the Consolidated Fund of India and although the figures relating to them

are included in the 'Annual Financial Statement'.

How much control does our Parliament have over finance?

Ours is a parliamentary democracy based on the Westminster model. The constitution has vested the power over the purse in the hands of chosen representatives of the people thus sanctifying the principle '**NO TAXATION WITHOUT REPRESENTATION**'.

Preparation of Budget for the approval of the legislature is a constitutional obligation of the government. Legislative prerogative over taxation, legislative control over expenditure and executive initiative in financial matters are the fundamental principles of Parliamentary financial control.

How many finance ministers have India had since independence?

India has had 28 finance ministers since independence.

What is meant by an Outcome Budget?

Outcome Budget broadly indicates physical dimensions of the financial budget of a Ministry/Department, indicating actual physical performance in the preceding year, performance in the first nine months of the current year and the targeted performance during the ensuing year

Outcome Budget contains a brief note on the organization and function of the Ministry/Department, list of major programmes/schemes implemented by the Ministry/Department, its mandate, goal and policy framework, budget estimates, scheme-wise analysis of physical performance and linkage between financial outlays and outcome.

– Compiled by **A Shreenidhi**
CA student at the Final Level

PEOPLE MAY DOUBT WHAT YOU SAY,
BUT THEY WILL ALWAYS BELIEVE WHAT YOU DO...



M-Express arrives

The Railway Minister has made her intentions clear. She wants to land at Writer's Building. The West Bengal elections, which are a few months away, is upper most in her mind.

She has rolled out an aam-admi budget which received the mandatory cheer from the Prime Minister.

The Indian Railways proposes to float Rs.10,000 crore tax-free bonds from the Indian Railway Finance Corporation in this coming fiscal to tide over cash crunch. There has been a plan to increase fare concession to senior citizen from 30 to 40%.

One should never forget the merit that Lalu Yadav had to his name when he turned down the loss making unit into a profitable giant. He was instrumental in pulling down the operating expense ratio to 79% from 98%. That's now gone up to 91.1%.

She has included West Bengal in the under-privileged category in terms of facilities in the safety of rail travel. There is also a plan to integrate the sub-urban railway network of Chennai, Mumbai, Kolkata, Hyderabad, and Ahmedabad.

Here are the highlights, for 2011-12:

- No hike in passenger and freight rates
- Highest ever plan outlay of Rs.57,630 crore proposed for Railways
- Rs.9583 for provided for new lines
- 700 MW gas-based power plant to be set up at Thakurli in Maharashtra
- 18,000 wagons to be procured during 2011-12
- 56 new express trains, 3 new Shatabdis and 9 Duronto trains to be introduced
- New super AC Class to be introduced. Pricing will be decided later
- Portal for e-ticketing to be launched shortly.
- Go India multi-purpose smart card to be introduced
- Anti-Collision Device to cover 8 zonal railways.
- Senior citizens concession to be hiked from 30% or 40%.
- Good in parts we need to wait to see how it goes.

BUDGET GLOSSARY



Appropriation Bill: A Bill presented to Parliament for approval, so that the Government can withdraw funds from the Consolidated Fund of India, to meet the expenditure arising, after the Demands for Grants have been voted upon by the Lok Sabha.

Budgetary Deficit: When total expenditure exceeds total receipts, the difference is the budgetary deficit. This deficit is funded by borrowing.

Balance of Payments: A statement of the country's trade and financial transactions that includes purchases and sales of goods and services, and other transactions over a period of time.

Balance of Trade: The part of a nation's balance of payments that deals with merchandise (tangible) imports and exports only.

Current Account Balance: When services and other current items are included in the balance of trade, it measures the balance of current account.

Consolidated Fund: A reservoir of funds consisting of all revenues received by the Government, loans raised by it, and loans recovered by it.

Capital Expenditure: Expenditure incurred by the Government in creating assets – such as building dams and roads and purchasing defence equipments.

Cut Motion: A motion put forward by the Parliament to reduce the allocation sought by the Government.

Disinvestment: The Government's mission of offloading a certain percentage of their stake in the Public Sector Units to unlock their hidden value.

Fiscal Deficit: The total amount of borrowed funds required by the Government to meet its expenditure. It is the gap between the Government's total spending and the sum of its revenue receipts and non-debt capital receipts.

Government Debt: Total Government obligations in the form of short term borrowings and bonds.

Gross Domestic Product (GDP): Total value of goods and services turned out in a year.

Gross National Product (GNP): Total value of goods and services turned out in a year plus income earned by citizens abroad minus income earned by the foreigners in the country.

Monetized Deficit: The level of support extended by the Reserve Bank of India to the Government's borrowing programme. ■

Prof SRK says, "To make omelettes you have to break eggs".

To be the Finance Minister of India is not an enviable position. He is accountable to the money, tax payers (and even non-tax payers) have entrusted to him. How he allocates the limited money resources (about Rs 12 lakh crore) among various competing functional ministries, keeping in mind the overall objectives of the nation, is indeed a tricky and slippery rope dancing skill.

Pranab Mukherjee has to choose and decide for the nation – higher growth rate and high rate of inflation or low rate of inflation with low rate of growth. The FM knows, as all the



political leaders and economists do that to make omelettes, you have to break the eggs.

High inflation rate hurts many segments of the population. But it is a booster for those in business as they make more money and employ more people to produce more. It is thus a pain for some (or many) and a gain for some (or a few). So, the FM has to choose between eggs and omelettes. Unbroken eggs do not help hungry people, omelettes do.

So, he has to choose between high growth and low inflation. His choice is likely to be high growth. High inflation resulting from high growth can be tackled by the RBI.

Trade-off between the two makes the task of FM very difficult given the negative and the positive elements in the economy.

The negatives are the loss of revenue from scams, recognition of high levels of black money in India and parked in tax havens abroad, concerns of double digit food inflation, the prospects of rising oil prices following the Middle East Crisis and a drop in industrial production due to high costs.

The positives are an assured minimum growth rate of 7-7.5 per cent coming from the secondary and the tertiary sector a one-year robust growth of over 5 percent in agriculture which is expected to ease the inflationary pressure and domestic savings rate of around 35 per cent and a comfortable foreign exchange reserves of US \$ 300 Bn.

In this kind of a set up the FM has to take measures at fiscal consolidation (that is, to bring down revenue deficit by raising revenue receipts and reducing public expenditure and also the fiscal deficit by using borrowed funds for asset creating activities).

The scope for expenditure reduction is less. In fact, there is a case for increasing public expenditure on infrastructure and rural development. So, the FM has to focus on revenue raising exercise. It is difficult to speculate how the FM will raise more revenue resources, but we can expect the following:

Withdraw the excise duty cuts as fiscal stimulus package in the wake of global recession. Industries want the



package to stay. But industries can still grow with higher excise duties. We have to wait and watch how the FM reacts.

Black money generation is a parallel economy which has been in existence from the World War II and during the license-permit raj and continues in the post reform period. The government seems to have realized its dimensions and magnitude all of a sudden. Both the PM and the FM have declared that they would deal with it firmly as it is said to be nearly 30 per cent or even more of GDP. What measure will the FM announce to tackle it is to be seen!

Tax Havens issue has gained focus in the last two years, much to the discomfiture of the ruling party. The government seems to have started to track the black money parked in tax Havens and bring them back to India. Tax treaty agreements are to be revisited and diplomatic pressures brought on the banks to disclose names and amounts. We can only wish good luck to the Govt. in this endeavor. Assuming the FM succeeds in unearthing black money in India and abroad and is able to mop up even a part of it and also collect the tax arrears of some individuals and firms, he will be the luckiest man that will totally alter the fiscal health of the economy.

Oil prices the recent Middle-East crisis has pushed up the oil price to US \$ 110 per barrel. The Govt. is not able to revise the prices of petrol, diesel, kerosene and LPG upwards, as and when oil price goes up, because of political reasons, given the fact that nearly 50 per cent of the petro prices are due to taxes, the FM may consider import of crude oil at zero import duty and reduce the price of petrol to Rs 40 per litre and other products proportionately, it will have

some beneficial consequences. The Govt. may lose tax revenue, but oil marketing companies will be able to fully recover their costs and perhaps a little more and pay the Govt. a handsome dividend price reduction of petrol, diesel, kerosene and LPG will bring down transport cost, to weaken the inflationary pressures substantially. It will also obviate the need for the Govt. to issue oil bonds to companies to compensate them

for under recoveries. It is a guess; if the FM will do it, Govt. being the biggest consumer of petrol and diesel may find price reduction equally beneficial to them.

On the expenditure front, huge investments are needed both in economic and social infrastructure. Rural development also needs high investments. The flagship schemes of antipoverty programmes are pots with big holes. The Govt. has to put

in place a suitable mechanism to plug the leakages and improve the delivery system; the Aam Aadmi will be better served.

Tax administration has to be toned up. A system of incentives to reach specified revenue targets to tax administration may help FM garner more tax revenue. A greedy FM may not be unwelcome as individuals.

- Prof. S Radhakrishnan
Chennai based Economist

BUDGET AND STOCK MARKET

Stock Market Index is considered to be the barometer of financial health of any country across the globe. Its movement is as important as any other economic indicator because it captures the pulse of the investors. Almost, and always, there are swings and sways before and after the Budget. Pre-budget expectations around any sector will invoke the investor interest. Suppose lets say there is a proposed food subsidy, the Food Corporation of India jumps up to pull down the output to its kitty. Similarly in stock market also there are some key activities or rather events that push or pull the sensitivity index.

Pre-budget Scenario: Senior Officials of Finance Ministry, National Informatics Center & Printing officials go to an undisclosed location and spend a week wherein they do not have access to outside world including their own family. Only the Finance Minister is empowered to meet these officials. Printing press will be under strict surveillance and Head of Intelligence bureau will directly supervise the activities. To prevent cyber attacks stenographers systems would be detached from the network of National Informatics Center

Pre-budget market movement: Analyzing the trends in the past, the stock market has always been highly volatile during the pre-budget season. This is of no exception to this year too. This is primarily due to the fact that there are high positive/negative expectations prior to the Budget and a sense of panic prevails in the minds of investors. Let us observe the factual data for an analysis. A look at the Index for the week (Feb 21-25) it is clearly evident the market has fallen day by day with the exception of a minor gain on Feb 25th. On Feb 21st, Nifty opened at 5456.60 and on Feb 25th, the close was 5303.55. Many factors can be put forward for a downfall in the market like the recent crisis in Egypt, corruption of certain Officials of prominent Financial Institutions in India and problems faced by the ruling party

due to corruption by the Ministers. Nevertheless the impact of budget on the Index cannot be under estimated, because the market has got the ability to discount the adversities in a short time period.

Expected market movement post budget: Most often than not past is rarely a true indicator of the future, how do you really expect the market to behave post-Union Budget? This very difficult question can be answered by giving a simple and a straight forward opinion. If the expectations of various stakeholders, viz, bankers, investors, corporates are met from the Budget, the market will tend to ascend. On the contrary, if the budget is not able to deliver the expectations of the various stakeholders, the market is bound to fall. Hence it also depends on how the investor per see the situation. One investor can be the root cause for the stiff upward rise and vice-versa.

One popular magazine quoted when the Budget discussion was round the corner that "Sensex has been battered a few months while the damage stays on with the small and mid-cap players who have the potential to become multi-baggers".

RATIONAL INVESTOR – PRE&POST BUDGET

DO'S	DON'TS
Get Rid of the Junk in your portfolio	Do not panic
Diversify	Do not make huge investments ignoring the devised strategy.
Believe in your investment	Do not speculate.
Stick to your strategy	

- Melwin Jose
Chennai based Chartered Accountant



Budget 2011-12 – SNAPSHOT

Economic Growth

- GDP rises by 8.2 per cent for the December, 2010
- Economy expected to grow by 9% next year
- Services have grown by 9.6%
- Public Debt Management Agency Bill to be introduced next financial year
- Financial sector reforms to move forward
- RBI to issue new guidelines for banking sector

Direct Tax

- Tax slab increased to Rs 1.8 lakh from Rs 1.6 lakh
- Senior citizen concession extended to Rs 2.5 lakh, their eligibility age reduced from 65 years to 60 years
- New category for very senior citizens created for 80 years and above to get Rs 5 lakhs
- Surcharge for companies cut to 5 per cent, from 7.5 percent
- A new revised income tax return form 'Sugam' to be introduced for small tax papers
- Direct Tax Code Bill likely to be passed by Parliament next financial year after getting Standing Committee report.



Indirect Tax:

- GST constitutional amendment bill to be introduced
- Service tax retained at 10 per cent; duty exemptions to be withdrawn on various items.
- Service tax widened to cover hotel accommodation above Rs 1,000 per day
- Service tax increased for A/C restaurants serving liquor, some category of hospitals, diagnostic tests.
- Service tax on air travel increased by Rs 50 for domestic travel and Rs 250 for international travel in economy class.
- A new scheme to be introduced for refund of service tax on lines of drawback of duties

Investments/Disinvestments

- Discussions on to further liberalize FDI policy.
- Government to keep up tempo of disinvestment process
- Portfolio investment would be permitted in SEBI registered mutual funds from foreign subscriptions
- FY12 disinvestment target at Rs 40000 crore



Expenditure/ deficit and revenue

- Fiscal deficit brought down to 5.1%
- Current account deficit and average inflation in 2011-12 likely to be less than current year
- Total plan expenditure will go up 100 per cent in nominal terms in the next year
- Revenue deficit fixed at 2.3 per cent in revised estimates of 2010-11 and 1.8 per cent in 2011-12
- Investment-linked deductions for fertilizers and developers of affordable housing.
- Central government debt in proportion to GDP will be 44.2 per cent in 2011-12.

Infrastructure and Education

- Infrastructure spending to be raised by 23%
- Tax free bonds of Rs 30,000 cr to be issued for infrastructure development.
- Union Budget 2011 proposes 24% increase in education sector allocation
- Rs 100 crore allocated for IIT Kharagpur
- Extension of investment on long-term infrastructure bonds by one more year



Markets

- Mutual funds open to foreign investors who meet KYC requirements.

Indirect Tax amendments

1. Assessment: Many changes have been made in the assessment procedure. Among them the most important thing is self assessment by the importer or exporter. While filing declaration and EDI system, the importer or exporter shall make assessment themselves and declare the same. The assessment made by the party may be checked by the dept on selective basis.

Note: the scheme of fast appearance available for certain goods in certain parts for certain big assessee is sought to be broadened through this scheme (extension of FTCS Board).

2. Difficulty experienced by service providers for getting refund of tax suffered in the case of exporter services. In the case of export of excisable goods such refunds are covered by a scheme called Drawback Scheme. Such

scheme is sought to be extended to services exported also. (Drawback scheme available to the excisable goods exported is extended to taxable services exported)

3. Services provided exclusively in SEZ are exempt. Therefore the provider will not charge service tax in his bill, but if service provided is partly in DTA and partly in SEZ, then the provider will charge tax. However the service receiver in SEZ can get back the tax suffered by him as refund. This refund procedure is sought to be simplified.
4. Rates in customs, excise, service tax (which are presently at 10%) remains unchanged.

– N S Govindan, Expert in Indirect Tax



Big B has something for everybody

The dictionary meaning of budget is a systematic plan for the expenditure of a usually fixed resource during a given period. Thus, Union Budget, which is a yearly affair, is a comprehensive display of the Government's finances. It is the most significant economic and financial event in India. Simply a Budget is a marriage between politics and economics (unfortunately happens every year) where economics is the bride and makes lot of compromise for the sake of politics. Pre event has lot of hope for both sides and post budget leaves everybody wondering and trying to crack what happened.

For the news channels

The day of the Union Budget is a reason to cheer for news channels. Why not? Their overall viewership for news shoots up by five percent or more during the Budget coverage. According to estimates, the Budget coverage is set to bring in ad revenues worth Rs 35 crore. According to reports, news channels get a fillip of nearly 40 percent in advertising revenues on the Budget coverage, another reason why channels hike their average ad rates by three times on the Budget day. In the run up to budget, car washers to car manufacturers are asked for their wishlist from the Finance Minister by the news channels. After the event the news channels are busy with their own set of analysis having their exclusive panel of celebrities trying to crack the budget implications and impact.

For the Markets

The Stock Market is considered by many to give immediate reaction for the budget even so when the budget speech is being read. Stock markets

tend to react violently around the budget. Since 2000, the average budget day move is -1.22% , with the wildest swing being 5% either side. Only on two occasions have there been moves of less than 1%. In 2002, when the swings were really wild, Yashwant Sinha had rolled back five proposals. The budget day saw a 4% fall, and the subsequent week, a 10% rise in the index.

Economics vs Vote

Budget in a year where state elections and central elections happens to tilt more towards sops and expenditure for those states. Unfortunately, in a country with 28 states and still more waiting to join the list, every year budget happens to be election budget only. We can expect much expenditure diverted to the election states. Considering the fact, election failures are attributed to Finance Minister he has to tread cautious path. Post budget, as per the norm the ruling coalition has

to say the budget was best they have ever seen and the opposition has to say it is inflationary.

Budget for the industry

The industry looks forward to the budget as a measure to plan for future course of action. Various items in budget have direct and indirect impact on the budget like excise duty, corporate tax, MAT, Tax holidays etc. Exemption of income for STPI, EOU and SEZ had positive impact on the industries. It helped them grow. But the Finance Minister should take right opportunity for reversing these sops.



Budget for the common man

As far as common man is concerned, he hopes that he gets some relief in the personal tax front. Increase in salary slab or reduction in tax rate and reduction in indirect tax rate for essential commodities and services will bring some happiness to their face immediately.

So.....

The Current year budget comes in the wake of numerous scandals and election in many states. Finance Minister has to prepare his budget in line with Direct Tax Code and Goods and Services Tax. The Current account deficit and Food inflation should also play major role in the preparation of the budget.

As Justice Holmes famously observed, taxes are the price we pay for civilization. Indeed, tax collection is a significant tool which helps the government build social and real infrastructure, implement welfare policies and promote economic development. Even though education cess is collected, the public expenditure on education has actually declined from around 3.23 percent of GDP in 2000-2001 to 2.88 percent in the recent times. As a proportion of total government expenditure, it has declined from around 11.1 percent in 2000-2001 to around 9.98 percent during UPA rule. This clearly shows that it is not about the money it is all about spending which even though envisaged in the budget is not being executed. Therefore, Budget should also give importance for its execution.

- S Krishna,

Chennai based Chartered Accountant

"It's clearly a budget. It's got a lot of numbers in it."

- George W. Bush

Sir R K Shanmukhan Chetty:
First Finance Minister of
Independent India

C D Deshmukh: First Indian
Governor of the RBI to become
Finance Minister.

Charan Singh: Went on to
become Prime Minister

John Mathai: India's first
Railway Minister.

R Venkataraman: Went on
to become President

T T Krishnamachari:
Held the portfolio twice.

Pranab Mukherjee: First
Rajya Sabha member to
hold the portfolio.

S B Chavan: FM during
1987-90.

V P Singh: Presented the
1985 New Wave budget.

Jawaharlal Nehru: First
PM to double as FM

Rajiv Gandhi: Third PM to
present a budget

Morarji Desai:
Presented TEN budgets.
A record.

N D Tiwari presented the
1988-89 Budget

Sachindra Chaudhuri:
Presented the 1965-67
budgets

Madhu Dandavate: FM
during the Janata Dal
Government

Indira Gandhi Only
Woman FM

Manmohan Singh: Architect
of economic reforms. FM
during Rao's tenure

Y B Chavan presented 4
straight budgets

Yashwant Sinha: Presented
four budgets from 1999-2000 to
2002-03.

C Subramaniam FM
during Emergency

H M Patel delivered the
shortest-ever interim budget
speech in just 800 words

P Chidambaram presented the
Dream Budget of 1996-97 and all
budgets under UPA-1

Jaswant Singh swapped
portfolios with Yashwant Sinha
under the BJP rule.

FINANCE MANTRIS