

Tax Hotline

January 13, 2004

INDIAN FINANCE MINISTER ANNOUNCES ADDITIONAL MEASURES FOR SUSTENANCE OF ECONOMIC GROWTH

Close on the heels of tax concessions announced on January 8, 2004 in relation to certain provisions for direct and indirect taxes, the Indian Finance Minister announced on Friday, a slew of measures in a bid to ease exchange control regulations and move towards the capital account convertibility, boost availability of finance for industry, agriculture and infrastructure. These provisions, as reported in the newspapers, are briefly summarized below:

EXCHANGE CONTROL LIBERALIZATION

Now, an Indian resident Individual can remit, or take, US\$25,000 out of the country, irrespective of the nature of the transaction. Though the fine print of these provisions need to be examined, it is widely reported that the individual can use this money to invest in listed foreign securities.

Indian companies can now make investments up to 100 per cent of their net worth abroad thus lifting the earlier limit of \$100 million on them. Existing restrictions on making investments in the agricultural sector abroad have also been removed

LIBERALIZATION OF THE ECB NORMS

The government has eased the ECB (External Commercial Borrowings) norms for raising funds from abroad by putting it on the automatic route of clearance for five-year projects

VARIOUS MEASURES FOR SUSTENANCE OF SPURT IN ECONOMIC DEVELOPMENT

MEASURES TO KICK OFF SECOND GREEN REVOLUTION

A special fund has been announced for INR 500,000 million to build agri-infrastructure and provide more rural credit. The National Bank for Agriculture and Rural Development (NABARD), has been asked to work out details for creation of an agricultural infrastructure and credit fund (AICF) and the fund would be made operational within four weeks and will be in addition to the already existing Rural Infrastructure Development Fund (RIDF). It will finance new infrastructure such as cold chains, develop wasteland and minor irrigation and strengthen institutions such as cooperatives, to attain the key goals of diversification, agri-exports and value addition. NABARD will make the funds available to the ultimate borrower at two percentage points below the Prime Lending Rate (PLR).

MEASURES FOR BOOST OF INFRASTRUCTURE

A consortium of major financial institutions to be set up in the country to coordinate another INR 500,000-million Infrastructure and Manufacturing Fund to finance key infrastructure and manufacturing projects over the next three years. The cost of funds to the ultimate borrower would be two percentage points less than the PLR. Areas to be covered: Power generation, ports, roads, airports, tourism, telecom and urban infrastructure.

SUPPORT TO SMALL AND MEDIUM ENTERPRISES ("SMES")

The government has announced the setting up of a INR 100,000 million fund to provide loans to SMEs. The fund will be operational within four weeks. The fund will be setup by the Small Industry Development Bank of India, and the interest rate for the ultimate borrower is expected to be two percentage points below PLR. Housing Sector in the Rural Area A scheme called the 'Atal Grameen Griha Yojana' has also been announced. It seeks to provide tax incentives to banks or housing finance companies. All income earned by these institutions from rural housing loans will be tax-exempt. Lenders now get an insurance cover against a rural housing loan turning bad where the security (such as the property financed) cannot be enforced.

FACILITATING FINANCING OF HIGHER EDUCATION

Students can now get educational loans at 2 percentage points below the prime-lending rate.

The Indian national elections are proposed to be announced any day. Once the elections are announced, the

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existing parliament will be dissolved. The current finance minister has announced the above summarized provisions as interim policy measures till the next full fledged budget, which would only be presented by the finance minister of the next government after the elections. Meanwhile, there would be a caretaker government which would need some financial support. This will be obtained by the outgoing government by way of "vote on account" from the current parliament before it is dissolved.

Source: The Economic Times and The Indian Express dated January 12, 2004.

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