Time Bound
Suggestions for Union Budget 2018-19

No. PLG(PI)1-46/2017
Government of Himachal Pradesh
Planning Department

From

Addl. Chief Secretary (Planning & Finance) to the
Government of H.P., Shimla-2

To

All the Administrative Secretaries to the
Government of H.P., Shimla-2

Dated Shimla-2 23rd December, 2017

Subject: **Regarding suggestions for inclusion in the Union Budget 2018-19 of Himachal Pradesh.**

Sir/Madam,

The Union Budget for 2018-19 is to be presented on the 1st of February, 2018. The State Government, after consulting all the Departments, has been sending suggestions, which merit inclusion in the Union Budget, to the Ministry of Finance, GoI. A copy of the suggestions sent by the Hon'ble Chief Minister for the Union Budget 2017-18 is enclosed for ready reference **(copy only to the department, whose suggestions are part of letter).** Similar exercise is required to be carried out for the Union Budget 2018-19 and is to be sent to the Union Finance Ministry urgently so that the suggestions of the Himachal Pradesh Government are considered for inclusion in the Union Budget 2018-19.

You are, therefore, requested to kindly send items which you feel merit inclusion in the Union Budget 2018-19. If any updation in the enclosed suggestions is required, the same may also be carried out. Your proposal must reach Planning Department by **1st of January, 2018** positively to enable Planning Department to send a consolidated proposal well in time to the Union Finance Ministry for consideration.

Yours faithfully,

Skant -

(Dr. Shrikant Baldi)
Addl. Chief Secretary (Planning) to the
Govt. of H.P. Shimla-2

Ensdtt. No. as above dated the 23 December, 2017

Copy forwarded to all Heads of Departments (**related to Plan**) for similar necessary action, please. The enclosures of the letter can be accessed on the website of the Planning Department **http://hpplanning.nic.in.**

(Basu Sood)
Adviser (Planning)
Govt. of H.P. Shimla-2

Suggestions for inclusion in the Union Budget 2017-18

1. Views of the State regarding implementation of GST

Industrial units set up in the State after 2003 till 2010 have been enjoying Income Tax Exemption and Central Excise Duty Exemption under the special package of the incentives for Himachal Pradesh and Uttarakhand. With the coming in of GST regime, some of the industrial units which are eligible to avail these concessions till 2020 will have to be compensated for loss of the Central Excise Duty exemption. It is proposed that sufficient budget provisions may be kept in Union Budget 2017-18 for reimbursement of equivalent amount of excise duty exemption, as has been decided in the meetings of the GST Council.

2. Announcement of air connectivity to all the State Capitals

The State has got minimum air connectivity as none of the Airports in Himachal Pradesh has capacity for landing of even medium size aircrafts. Air connectivity is very important to attract tourists to the State. In this context, it is requested, at least the Airports of the State Capitals of the Hilly States should form one of the announcements of the Union Budget and special Budget/Fund should be earmarked for the acquisition of land for up-gradation & maintenance of the existing airports in H.P.

In case of Himachal Pradesh, the facilities at Shimla Airport should be upgraded and the runway should be extended so that regular flights can take place.

3. <u>Delegation of powers to accord environmental clearance for the Hydro Projects</u>

The State Government had taken up the issue of delegation of powers to accord environmental clearance for the Hydro Projects. Himachal Pradesh is endowed with a large hydel power potential. However, execution of even the run-of-the-river hydel power projects is being delayed inordinately despite being the source of cleanest energy, due to the delays in environmental clearances from the MoEF. Hence, the Government of India was requested to delegate the powers to accord environmental clearances for hydel projects to the State Governments.

In reference to our request, the Government of India responded that "the Environmental Clearance (EC) to any Hydro Power Project is issued under Environmental Protection Act, 1986. Projects needing Environmental Clearance are divided in two categories 'A' and 'B' based on type and size of the project. 'A' category projects are cleared by Ministry of Environment & Forest (MoEF) when submitted by the project proponent through the State Government and 'B' category projects are cleared by the State Government itself.

Hydro electric projects less than 50 MW can be cleared by the State Government, whereas projects more than or equal to 50 MW capacity can only be cleared by MoEF. However, complete procedure for Environmental Clearance of 'A' category projects takes 210 days from the time project is submitted to MoEF. Further, delegation of power to the State for Environmental Clearance, as suggested, needs amendment in the Environmental Act 1986."

However, the State Government is of the viewpoint that the stance taken by the MoEF, that delegation needs amendment in the Environmental Protection Act, 1986 does not appear to be correct.

The plea of the State government in this regard is that the same provisions of the Act which authorize State Governments to accord environmental clearance to the hydro projects upto 50 MW may be invoked to enhance the delegation of power to accord environmental clearance for all run- of- the River Hydro Projects. It may be considered announcing in the budget that the power to issue environmental clearance for the hydro power projects will be delegated to the States, and the States will accord clearance in accordance with the norms/guidelines issued by the MOEF

4. <u>Delegation of powers under FCA</u>

Similarly, it is also requested that the powers delegated under Forest Conservation Act to the State Government (Special Category State), may kindly be enhanced from 1 hectare to 10 hectares and roads should also be covered in the list of permissible projects, keeping in view the various problems being faced in the Hilly States and to ensure timely execution of various developmental projects.

5. <u>Deceleration of Hydropower above 25 Mega Watt as renewable source of energy</u>

Hydropower may be declared and announced as priority sector by the Government of India so that long term credit facility/loan facility is available to the sector. Hydro Power Purchase Obligation may also be introduced on similar lines as applicable for Solar and Wind Power.

6. Amendment in The Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act 2015

The Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act 2015 seeks to amend the act of 2013. (LARR ACT, 2013). The Bill creates five special categories of land use (1) Defence (2) Rural Infrastructure (3) Affordable Housing (4) Industrial Corridors (5) Infrastructure Project and Exempts these five categories from provisions of LARR Act 2013 which requires the consent of 80% of land owners to be obtained for private projects and 70% of land owners for PPP projects. The bill also allows exemption of projects in these five categories from requiring Social Impact Assessment to be done to identify those affected

7. Raising of Import Duty for Apples

Apple being the major horticulture produce of the State is also primary source of livelihood for the large populace. Last few years have witnessed large influx of the imported apple into the national market. The Himachal Apple needs protection from the cheaper imported apple. The import duty of apples requires to be raised at least two times to protect the interest of the local growers, for which announcement in Union Budget 2017-18 would protect the interests of farmers.

8. Extension of Interest subvention to MSME sector as applicable in agriculture sector

Under the policy initiative to promote the agriculture sector, Government of India is providing interest subvention by 3%. Similarly, Government of India should also consider providing benefits of interest subvention to MSMEs as well. MSME sector is the second largest employer after the agriculture sector.

The Hon'ble FM is humbly requested to announce a Maximum Cap of Interest Rate to be charged to MSMEs by Banks/FIs linked with Base Rate e.g. Maximum 2% plus Base Rate in this Union Budget as this is a long pending demand of this sector. High rate of interest is being charged by Banks/FIs in comparison to Big Corporates or Agriculturists.

Further, in the backdrop of enhanced competition in the domestic market post liberalization of the economy, signing of FTAs with numerous countries, dumping of imported goods from the neighbouring countries, the interest subvention will prove very useful for the MSME sector. Therefore, it is suggested that interest subvention of 3% be extended to MSME sector.

9. Venture Capital Fund for MSME Sector

It is suggested that SIDBI should be declared the development Institute for funding the MSME and SIDBI be allowed to raise funds from market through bonds or other means, the funds thus raised would be at lower rates and the same can be then passed on to MSME sector.

10. Extension / Continuation of Central Capital Subsidy Scheme

The GoI had given a Special Economic Package to Hill States of Himachal Pradesh and Uttarakhand in 2003 for a period of 10 years, consisting of Waiver of payment of Excise Duty, Exemption of paying Income Tax & Central Capital Subsidy on Investment in Plant & Machinery. Out of these 3 incentives the first 2 incentives were curtailed to 7 years and ended in 2010. However, the CCIS remained valid till 2013 and on request of Industry the GoI further extended the CCIS till March 2017.

The Hill States need to be further hand holded by the Central Govt. so as to enable them to have adequate Industrial Growth as such the only incentive available to the Industry in HP in shape of CCIS must be further continued for a minimum period of Five Years.

11. Lower Corporate Tax

- Lower Corporate Tax Rate to 18% (this rate must include all surcharges and Cess)
- With the applicability of minimum alternate tax (MAT) and Dividend Distribution Tax (DDT), the overall tax burden on the corporate sector is one of the highest in world.

12. Alternate Minimum Tax (AMT)

In order to widen the tax base, GoI imposed 18.5% Alternate Minimum Tax (AMT), on all types of identities / persons other than Companies e.g. Sole Proprietorships and Partnership Firms etc. in the Union Budget 2012.

The new levy is extension of the concept of the MAT, which was introduced by the government to bring the zero taxpaying Companies/Corporates under Tax net, way back many years, starting from meagre 10% and gradually increasing the same to the present level of 18.5% but the present levy in shape of AMT proposes to tax the small identities equivalent to the level of Big Corporates @ 18.5% except for an exemption of initial income/ gains of ₹20.00 lacs.

The said proposal of AMT needs to be analyzed in two parts:

- The identities operating from Tax Exempted Zones: The identities operating from Tax Exempted Zones will be hit hard by this proposal as with introduction of new rules all entities which were earlier enjoying exemption of payment of Income Tax on their Profits/Gains, under Section 80-I C, operating in State of Himachal Pradesh, Uttarakhand, Jammu & Kashmir and North East will now have to pay minimum 18.5% tax on their book profits against NIL presently.

- The identities operating in other parts of the Country, with the availability of exemption of ₹20.00 lacs on initial gains/profits, will have negligible impact of the proposed legislation on their working as they otherwise also have to pay tax on their profits / gains, irrespective of the proposed legislation in place or not.

It is pertinent to add that the Government of India had announced the scheme of Section 80-I C way back in 2003 for these backward areas for a specified period, in order to have an equitable development of these areas. The said scheme was introduced by the Govt., keeping in view of a long term sustainable policy in mind, very well knowing that such a levy is existing but is only applicable on Companies, because the intent of the Govt was to promote small businesses by offering them certain extra benefit. The Govt. of India had prompted Industry, specially the MSME Sector, which mostly operates in either Individual or Partnership models, to set up the industrial units in these backward areas so as to promote and develop these areas and bring them at par with other parts of the country on the pretext that such industrial units were given tax holiday for specific period. The stake holders have made huge investments in terms of money, efforts, energy and time based on the confidence and commitment of the Government of a firm policy for a fixed period.

Though the proposed legislation of AMT provides for carrying forward the credit of the such tax paid in subsequent years but the introduction of AMT on Individuals/firms etc. is a big blow to the MSME Sector operating from these Tax Exempted Zones as it will directly hit their cash flow, because most of the MSME runs their businesses with limited sources of finances in absence of free flow of credit from Banks & Institutions. MSME Sector is already facing a lot of hardships like high interest cost, lack of availability of skill & technology etc. and another blow in shape of AMT will further affect their sustainability in the present tough time.

It is also important to add that the India has a taxation history of keeping different tax slabs for Companies in comparison to Individuals but in the present case the Govt. has proposed to tax both at the same level of 18.5%, which is against the spirit of our long standing legacy as set by our fore fathers. Secondly the MAT on Companies was introduced from a small percentage of 10% and was gradually increased to present level of 18.5%, whereas in present case the AMT starts from a level of 18.5% only, as such, if at all the intent of the Govt. is to reverse its original stand of promoting the MSME Sector in Tax Exempted Zones on the pretext of widening the tax base than the same need to be started from a much lower level.

The State would also like to apprise that these Tax Exempted Zones have flourished by the hard work put up by the MSME Sector, who came to these areas from far flung corners of the country, leaving behind their families and started their businesses only on faith and confidence that they will be able to enjoy the benefits, as promised by their Government to the fullest but today with the said proposal in place, they are felling dejected & depressed.

It will not be out of place to mention that if incentives like exemption to pay Income Tax on the earnings of these Units (as promised under Section 80-I C for a fixed period) are withdrawn, then we may see the exit of such units from these areas /states, resulting in wide spread unemployment, drop in revenue of the States and reduction in overall growth of the Industry, which at the end of the day will be counterproductive.

In the light of the above stated facts, The State Government requests to kindly revisit the said proposal of levy of AMT on persons other than Companies and proposes as under:

- Complete roll back of the proposal of levy of AMT in order to promote MSME Sector and, in turn, the employment or

- If complete roll back is not possible than the identities other than companies enjoying Exemption under 80-I C should be kept outside the purview of AMT till the period of availability of such exemption to that particular unit i.e. for 5 Assessment Years from the date of commencement of its production.

13. <u>Modification in Industrial Infrastructure Upgradation Scheme (IIUS)</u>

IIUS was launched in 2003 as a Central Sector Scheme to enhance competitiveness of industry by providing quality infrastructure through Public Private Partnership in selected functional clusters. Central Assistance up to 75% of the project cost subject to ceiling of ₹50.00 crore was provided for initially, and thereafter this ceiling was raised to ₹60.00 crore, for each project.

This is a very good scheme for the States which are newly industrialized. The following modifications in this scheme may kindly be included as one of the announcements of the Union Budget 2017-18:-

(i) The limit of grant of ₹60.00 crore should be suitably enhanced in view of increase in cost of execution.

(ii) The limitation of one project per state should be relaxed for states like Himachal Pradesh, which are newly industrialized and are more deficient in industrial infrastructure.

(iii) There is no provision for cost escalation. This need to be amended, because at times there are certain factors for delay which are beyond the control of Special Purpose Vehicles (SPVs). Otherwise projects will be disturbed and end up with requirement for additional funds.

14. Clarification Regarding Interpretation of Section 80-I C of the Income Tax Act, 1961

In 2003, the Union Cabinet announced a package of fiscal and non-fiscal concessions for Special Category States of Himachal Pradesh, Uttaranchal, Sikkim and North Eastern States. The objective of this package was to promote industrial activity and generate employment in these States by providing financial benefit to the stakeholders under the Income Tax Act by introducing Section 80-I C allowing deduction from profits for ten years.

The benefits under newly introduced section 80-I C is admissible:

- The new undertakings or enterprises, and/or.
- Existing undertaking or enterprises on their substantial expansion.
- The eligibility for both above categories was extended to units commencing their production.

The above eligible units are entitled for deduction @ 100% in the first five years and @ 25%/30% for the next five years with a ceiling of benefit extending maximum up to 10 years.

The issues in allowing deductions u/s 80-I C, is creating lot of hardships to the industries.

(a) In case of substantial expansion again taken up by new unit or already expanded unit in the subsequent years (say 7th /8th years of their operation), the department is not allowing 100% deductions for another 5 years by not taking the year of expansion as initial assessment year. As per the provisions of the 80-I C of Income Tax Act there is no bar for substantial expansion in subsequent years and making eligibility for 100% deduction as a new unit. However the field formations are interpreting it wrongly and denying deductions to assesses. Many companies have done expansions and they are facing problems from the department. This has also resulted in lot of litigation.

(b) Rejection of claim u/s 80-I C on sale of scrap generated during the course of manufacturing activity.

Presently the Assessing Officers are rejecting the claim of assesses of 100% deduction under Section 80-I C on sale of scrap. It is an undisputed fact that scrap is generated during the course of manufacture and it is inherent part of manufacturing activity only. Scrap is only generated during the manufacturing of goods and without the manufacturing activity, scrap would not generate at all. As such, generation of scrap has direct relation with manufacturing activity, the deduction u/s 80-I C should not be denied to the assesses.

(c) In certain cases, Income Tax Department is not treating a particular process as manufacturing process whereas as per the Central Excise Act these activities are considered as manufacturing process and the assese has to pay Excise Duty on the product being manufactured in such units.

It is also pertinent to add that most of the articles/objects as manufactured are clearly classified under Tariff Headings of Central Excise, evidencing that the process involved to produce such articles/objects tantamount to Manufacture. Our point is that if Excise Laws term the particular process as Manufacturing Process, then Income Tax Act should also recognize it as manufacturing process as there cannot be conflict between interpretations of two different tax laws in the country.

It shall be not out of place to mention here that more than 80% assesses of Himachal Pradesh belongs to MSME sector which is the back bone of the Manufacturing sector generating more than 70% employment. Once the assessment is framed and 80-I C denied on flimsy grounds, huge demands are raised which are superfluous. It has also been noticed that undue coercion is made on the MSME to deposit these demands, pending appeals at various level. If a genuine opinion is taken at the CBDT level in a liberal way and circulated to the field formation, then lot of unnecessary litigation can be avoided, which shall save lot of time and energy.

15. Delay in payment of TDS for one day – Interest chargeability @ 3% injustice to assessee

The inadvertent delay if any needs to be corrected and a grace period of seven days be permitted with clear interest cap at 1.5% per month towards penalty.

16. Central PSUs

- NITI Aayog recommendations on the Loss making PSUs should be accepted and implemented.
- Government should undertake a census of land and other assets locked up in central PSUs that have turned economically unviable and cannot be revived.
- Central Govt. may be persuaded to allot some Mega Public Sector Industrial Unit in the State of HP so as to enable the state to have substantial industrial growth through ancillary industry of such Mega Unit.

17. Viability Gap Funding for Air Taxi Services

The Union Government has allowed subsidized Heli-Taxi services for North Eastern States. This subsidy is not available to the State of Himachal Pradesh. The major bottleneck for air travel at the movement is the non-viability operation. The operations are not viable due to the inability to operate large-size aircrafts from the existing airports.

It is essential that viability gap funding for subsidizing Flight Services be provided to the State of Himachal Pradesh on priority on the pattern of North-Eastern States and may kindly be included in the Union Budget. This would facilitate tourism as well as aid in disaster management.

18. <u>Enhancing Budgetary allocations in the Union Railway Budget 2017-18 in respect of Himachal Pradesh</u>

Himachal is a special category hilly State. It shares international border with China and therefore has strategic importance. Road transport is the only means of transportation in Himachal Pradesh. Other means of transportation like Air, Rail, Water, etc. have negligible presence in the State. There is a strong need to expand the rail network in the State. It is therefore requested that the Bhanupalli-Bilaspur- Leh rail-line and by converting Pathankot- Jogindernagar line to broad gauge may be declared, as the projects of National Importance and adequate budget specifically for these rail lines may be provided in the Union Budget 2017-18.

19. <u>Exclusion of Service Tax on State Income from free power</u>

Hydro Power forms the backbone of the economy of the State of Himachal Pradesh and one of the prominent sources of the State's Revenue is through the Sale of Power. In accordance with the Hydro Power Policy of the State and the National Hydro Power Policy, we have been constantly endeavoring to harness the Hydro Power Potential through Independent Power Producers (IPPs). The State gets its share of Free Power as envisaged in these Policies and further generates Revenue through the Sale of this power.

However, the Union Government through the office of Commissioner Central Excise and Service Tax, Chandigarh has slapped a notice on the State Government for payment of Service Tax on this income claiming a contravention of the Finance Act, 1994 and Service Tax Rules, 1994. Not only is such a notice in complete disregard of the National Hydro Power Policy but also a contravention of Article 289 of the Constitution of India, which exempts the property and income of the State from Union Taxation.

The State Government requests for issue of necessary directions for withdrawal of this notice and case, and a clear announcement in Union Budget 2017-18 for exclusion of this income from the purview of Service Tax.

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