

Time Bound
Suggestions for Union Budget 2017-18

No. PLG(PI)1-46/2016
Government of Himachal Pradesh
Planning Department

From

The Addl. Chief Secretary (Planning & Finance) to the
Government of Himachal Pradesh, Shimla-2.

To

All Administrative Secretaries to the
Government of Himachal Pradesh, Shimla-2.

Dated: Shimla-2, the **30** November, 2016

Subject:

**Regarding suggestions on behalf of State of Himachal
Pradesh for inclusion in the Union Budget 2017-18.**

Sir/Madam,

The Union Budget for 2017-18 is likely to be presented on 1st February, 2017. 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, H.P. for the Union Budget 2016-17 is enclosed for ready reference. Similar exercise is required to be carried out for the Union Budget 2017-18 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 2017-18.

You are, therefore, requested to kindly send items which you feel merit inclusion in the Union Budget 2017-18. If any updation in the enclosed suggestions is required, the same may also be carried out. Your proposal must reach Planning Department by **10th December, 2016** positively to enable Planning Department to send a consolidated proposal well in time to the Union Finance Ministry for consideration.

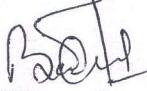
Yours faithfully,

skbwl —

(Dr. Shrikant Baldi)
Addl. Chief Secretary (Planning) to the
Government of Himachal Pradesh

Ensdtt. No. as above dated the 30 November, 2016

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)
Joint Director (Planning)
Govt. of H.P. Shimla-2

VIRBHADRA SINGH
CHIEF MINISTER



ELLERSLIE
HIMACHAL PRADESH
SHIMLA-171 002.

D.O. No: PLG(PI)1-46/2015
Dated: Shimla-2, the 3rd February, 2016.

Dear Shri Arun Jaitley,

Please refer to DO letter No. 2(66)-B(S)/2015, dated 30th January, 2016, regarding meeting with Finance Ministers of all States and UTs with Legislative, fixed for 6th February, 2016 for the suggestions on the forthcoming Union Budget 2015-16.

I am proposing certain suggestions which merit inclusion in the Union Budget-2016-17. A detailed note on these suggestions is enclosed.

I am sure, you will consider these suggestions while formulating the Union Budget 2016-17.

With regards

Yours sincerely,

Virbhadra Singh
(Virbhadra Singh)

Shri Arun Jaitley,
Hon'ble Finance Minister,
North Block,
New Delhi-110 001.

Suggestions for inclusion in the Union Budget 2016-17

1. Views of the State regarding implementation of GST

The State of Himachal Pradesh supports the implementation of GST to merge multiple indirect taxes and to make the whole country a common market. However, before implementing GST, the following points should be addressed, in the 122nd Constitutional Amendment Bill pending before the Parliament:-

- (i) There should be a Constitutional cap of 18% on the GST rate.
- (ii) The 1% tax on interstate supply of goods should be withdrawn as it is regressive and against the spirit of GST, as destination tax.
- (iii) There should be a dispute resolution tribunal headed by a Supreme Court Judge to resolve the disputes arising out of the recommendations 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 have 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 funds should be earmarked for the Upgradation and maintenance of the Airport.

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

3. Delegation of powers to accord environmental clearance for the Hydro Projects

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 50MW 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 up to 50 MW may be invoked to enhance the delegation of power to accord environmental clearance for all run- of- the River Hydro Projects. You may consider 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. Delegation of powers under FCA

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. Roll Back of Alternate Minimum Tax (AMT)

In the Union Budget 2012, GoI imposed 18.5% Alternate Minimum Tax (AMT), on all type of identities/persons other than companies e.g. Sole Proprietorships and Partnership Firms etc. The levy is extension of the concept of the Minimum Alternate Tax (MAT), which was introduced by the Government to bring the zero taxpaying companies/corporate under Tax Net. Initially this started from 10% and gradually increased to the present level of 18.5%. 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 lakh.

The State of Himachal Pradesh has been hit hard by this proposal as the identities operating from Tax Exempted Zones which were earlier enjoying exemption of payment of Income Tax on their profits/gains, especially under Special Category States have now to pay minimum 18.5% tax on their book profits, against NIL earlier. Govt had prompted industries especially the MSME Sector, which mostly operate either individually or in partnership, 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.

In the light of the above stated facts, we humbly request you to kindly revisit the said proposal of levy of AMT on persons other than Companies and we request you as under:-

- Complete roll back of the proposal of levy of AMT in order to promote MSME sector
- The rate of AMT may be reduced to 10% from present level of 18.5% + Cess.

6. 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.

7. 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.

8. 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. It is suggested that the import duty of apples should be raised at least two times to protect the interest of the local growers.

9. Modification in Industrial Infrastructure Upgradation Scheme (IIUS)

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. I would request the following modifications in this scheme, which may kindly be included as one of the announcements of the Union Budget 2016-17:-

- (i) The limit of grant of ₹60.00crore 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.

10. Levy of Excise Duty on certain category of products

There is an anomaly in the certain categories of product for levy of excise duty under Tariff Head 8432-There is Nil Excise duty on Agricultural, Horticultural or Forest machinery for soil preparation or cultivation, lawn or sports good rollers.

Whereas there is a confusion, whether the spare parts/or inputs used to manufacture such agricultural/horticultural machinery are covered under Excise Duty or not. It is requested that it should be clearly defined whether parts for such machinery shall attract excise duty or not?

11. Inspection Agencies under Exports

Exports are required to submit and undergo Inspection of Goods meant for Exports like Certificate of Origin etc. Since Inland Container Depot is now operational at Baddi, District Solan all such clearances through various Govt. of

India offices should be carried out at Baddi Container Depot. Offices like Export Inspection Agency should have their offices in the State.

12. 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, Uttarakhand, 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 on or before

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 IC, is creating lot of hardships to the industries.

- (a) In case of substantial expansion is 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 IC 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 in a wrongly and denying deductions to assesses. Many companies have done expansions and they are facing problems from the department, once this account and lot of litigations are going on.
- (b) Rejection of claim u/s 80 IC 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 IC 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 IC should not be denied to assesses.

- (c) In certain cases, Income Tax Department is not treating a particular process as manufacturing process where as per the Central Excise Act these activities are considered as manufacturing process and the assesee 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 terms 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 India Manufacturing sector

generating more than 70% employment. Once the assessment is framed and 80 IC 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 Boards 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.

13. Delay in payment of TDS for one day – Interest chargeability @ 3% INJUSTICE TO ASSESSE

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.

14. 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, and may kindly be included in the Union

Budget. This would facilitate tourism as well as aid in disaster management.

15. Enhancing Budgetary allocations in the Union Railway Budget 2016-17 in respect of Himachal Pradesh

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 converting Pathankot- Jogindernagar line to broad gauge may be declared, as the projects of national importance and adequate budget for these rail lines may be provided to the Ministry of Railways

16. Exclusion of Service Tax on State Income from free power

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 (IPP's). 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 further to issue formal orders for exclusion of this income from the purview of Service Tax.