Indian Union Budget 2017-18

Cramped for Elbow Room – FM Dolls up Budget

The Hon. Finance Minister found himself in an unenviable position where the Honorable Prime Minister had stolen his thunder and announced all the sops as a New Year gift on 31.12.2016 to the people harassed by an avoidable demonetization. (I use the word avoidable in the context of demonetization because it is almost always to be used as a last resort being akin to surgery, an extreme step and that too only if the results cannot be achieved otherwise. Although the multitudes of people seem to not mind the suffering, in fact some seem to be almost enjoying the hardships as a ritual penance; the objective could have been achieved using other less extreme measures).

Left with less elbow room in terms of funds to provide what people have came to associate with the budget the FM has still managed to appear to be at once innovative and transparent and managed to project a future full of hope based on transformation, for the youth and the vulnerable sections of society – the poor, the rural farmers, the scheduled castes and scheduled tribes and women.

A few sharp analysts and opposition leaders in fact wondered aloud how the numbers match given that, as against 25% to 35% increase in expenditure claimed across key areas/ sectors the total budget expenditure for 2017-18 is estimated at Rs.21,46,735 crore compared to the Revised Budget estimates for 2016-17 of Rs.20,14,407 crore which is an increase of Rs.1,32,328 crore on a base of Rs.20,14,407 crore or a net increase of merely 6.6% which just about takes care of inflation. Does it mean the huge increase is at the cost of some areas/sectors for which allocations have fallen? The key is in the saying attributed to British Prime Minister Benjamin Disraeli "Lies, damn lies and statistics"

The figures for the current year increase have been presented for 10 groups-the thrust areas whereas earlier data is ministry wise and this year the plan and non plan expenditure is combined unlike last year and hence the two are not really comparable and the touted increase is just an exercise in statistics aiming for a feel good factor and really serves no other purpose.

This year the key themes of the budget are:-

1. **Farmers:** for whom we have committed to double the income in 5 years
2. **Rural Population:** providing employment and basic infrastructure
3. **Youth:** energizing them through education, skills and jobs

4. **Poor and the underprivileged:** strengthening the systems of social security, health care and affordable housing
5. **Infrastructure:** for efficiency, productivity and quality of life
6. **Financial sector:** growth and stability through stronger institutions
7. **Digital economy:** for speed, accountability and transparency
8. **Public service:** effective governance and efficient service delivery through people's participation
9. **Prudent Fiscal Management:** to ensure optimal deployment of resources and preserve fiscal stability.
10. **Tax Administration:** honoring the honest.

These ten themes are a renamed version of last year's agenda of " Transform India" which spells out nine areas of thrust viz. Agriculture, Rural sector, Social sector (including Health care), Education Skills and Jobs creation, Infrastructure and Investment, Financial sector reforms, Governance and Ease of Doing Business, Fiscal Discipline and Tax Reforms.

Thus one cannot really claim that the budget is innovative or transformational either in terms of scope, coverage, thrust areas, direction or innovation as far as the expenditure side is concerned. The good news is that on this side barring some changes continuity is maintained and there are no surprises.

What then is different in this year's budget? First it incorporates the Railway Budget (approx Rs. 1.31 lakh crore) which makes it larger and gives one person the FM an opportunity to deal with the entire transport sector (approx Rs. 2.41 lakh crore) and explore possibilities of multi model combination projects. The second change is doing away with the distinction of plan and non plan expenditure on the basis that it will facilitate optimal allocation of resources. (The only caveat here is that this distinction was made in the past as plan expenditure both capital and revenue was developmental expenditure whereas non-plan expenditure is generally departmental and administrative in nature including salaries of staff. With this distinction / bifurcation removed, it will be difficult to track non- productive expenditure). The third change is that the date of presentation of the budget is advanced to 1st February 2017 to ensure that no vote on account is required and ministries are able to work from day 1 of the new fiscal year as the budget process will be completed before 31st March 2017.

On the macro economic front, given the encouraging tax collections which have no doubt been boosted by the two schemes - Income Declaration Scheme (IDS) and Tax Dispute Resolution scheme apart from the impact of demonetization which is mixed, the expectation was that the FRBM target of fiscal deficit of under 3% will be achieved, but giving in to the temptation of loosening the purse strings the fiscal deficit has been kept at 3.2% of the GDP which is not so great news given lower estimates of GDP growth post demonetization, coupled with uncertainty over oil price and the increasing protectionism across the world which will further affect Indian exports. The monetary policy of US Federal Reserve to increase the rates in 2017 may affect FDI further putting greater pressure on our economy.

Back home the lingering uncertainty over the actual start date of GST regime and the as yet unclear position of taxation rate and regime for services and the continued issue of coverage of land and property under GST remain as significant issues and part of work in progress.

Let us turn to the budget proposals itself with the express agenda of transform, energize and clean India with an emphasis on the ten themes listed earlier.

On the first two counts of transform and energize, the budget scores well in terms of continuity with the thrust on agriculture, rural sector and employment generation. Though more concrete numbers especially of current employment and projected increase in employment would have really set the direction, it is nevertheless one more step in the right direction. By concentrating on effective use of water for micro irrigation, village ponds and bunds under MGNREGA, better sanitation, energy for all villages, improved rural roads, and imparting new skills in rural areas there is a more systematic approach to address the needy population by providing them the means to improve their lot rather than giving more subsidies.

In the financial sector scrapping of FIPB and listing of all PSUs including the railway entities of IRCTC, IFRC & IRCON if handled well will give good results, so is the much needed recapitalization of banks. The proposed legislation enabling attachment of properties of absconding defaulters is more a show of intent and political will rather than something which will address the problem of NPAs and bad assets.

A caveat on the Digital Economy and cashless thrust is the burning issue of cyber security and cyber crimes. It remains to be seen whether creation of one more CERT (Computer Engineering Response Team) exclusively for the finance sector will really address the issue, given the not so encouraging track record of the existing CERT.

The two stand out changes in this budget are first, the thrust given to the housing and real estate sector raising limits for affordable housing eligibility from 30 to 60 sq metre built up area to 30 to 60 sq metre carpet area which along with lowering of holding period for tax exemption of long term gains from 3 years to 2 years and brining forward indexation date from 1981 to 2001, which will surely witness a building boom across the rest of India if not in the four metro cities. This will also increase employment in this sector and the ancillary sectors substantially and stimulate growth.

The second stand out change is the proposed reform to bring in transparency in electoral funding. Cash donations received by political parties will now be capped at Rs.2000 per person as against Rs.20,000 earlier, bringing greater transparency and address the black money issue to an extent. The proposed issuance of electoral bonds to donors which can then be encashed by political parties in their accounts, will remove the fear of identification and linking of donors to political parties and consequent potential harassment and adverse fall out. Restriction of tax exemption to parties which file their returns on time is aimed at improving compliance. However politicians are a class unto themselves, and even in a democracy like India where all people are considered equal, some people continue to be more equal than others. The outcome of this ambitious measure will depend to a great extent on whether the politicians choose to follow the proposed reform in spirit than by the letter alone.

Turning to the tax proposals the FM has made captains of industry and the players on the capital markets breathe a sigh of relief by actually not doing something. There is ostensibly no significant change in the tax regime for capital gains tax both short term and long term on stocks, shares and mutual funds. This one factor has actually made the indices rise at the end of the budget, which otherwise remained more or less flat throughout the budget speech.

A hype was created about the possibility of an introduction of tax/raising the tax rate on such capital gains and also a number of other such stiff measures. The feeling of having been let off the hook this time was so great that I was almost tempted to keep the title of my piece this time as "Budget that was not – A Sigh of Relief" The Hon. FM's budget will be more remembered for the budget that it was not, than for what it was.

The provisions really to be watched are the important signals from the government and the finance ministry that cash in the Indian economy is no longer welcome.

The first was the restriction/cap on weekly withdrawals from bank accounts ostensibly to enable phased remonetization and prevent a fresh build up of cash held in new currency notes. It is thankfully removed for current accounts coinciding with the budget day but continues for saving and other accounts.

The second is the incentive in service fees, charges and even direct taxes for digital transactions of 2% lower presumptive income at 6% as against 8% presumptive income for tax purpose.

The next is the revised lower limit of donations of Rs. 2000(old limit Rs. 20,000) for political parties and for donations received by NGOs. (Old limit Rs. 10,000).

The fourth which by far will have the largest impact is the cap on cash expenditure of Rs.3,00,000 beyond which cash transactions will not be permitted. The fine print for this need to be analyzed. As such a total cap has never been proposed nor implemented in the past with nearly 40% of India still unbanked and nearly 70% of the population engaged in agriculture where cash transactions continue to be the norm, it is not clear how this is going to be feasible, how it will be rolled out, how it will be enforced and whether it will work.

For a small trader like the corner bania shop who is covered by the presumptive scheme a turnover of about Rs.35,00,000 which is almost entirely in cash will have a presumptive income @ 8% of Rs.2,80,000 which is not taxable as per the new proposals. But with a corresponding expenditure of (35,00,000-2,80,000).i.e. Rs.32,20,000 which is primarily in cash this limit of Rs. 3,00,000 would be exceeded ten times over.

This is a proposal which needs to be flagged for an in depth analysis after reading the devil in the fine print.

On the other tax proposals a feel good relief of no tax up to Rs.3,00,000 by way of rebate and lowering the tax rate on the first income slab up to Rs.5,00,000 to 5% will provide relief to both low earners and also to all tax payers, the maximum relief being Rs.12,500

Finally another please all on the direct tax front is the lowering of tax rate on companies having turnover of less than Rs.50 crore to 25% which will provide relief to 96% of the registered companies and will encourage SMEs to corporatize themselves. Of course there is a counter proposal to provide for a surcharge of 10% of tax payable on categories of individuals whose annual taxable income is between Rs.50 lakh and Rs.1 crore thereby reducing the cheer for them.

The response to the tax proposal for a simple one page form to be filled as return for individuals having taxable income up to Rs.5,00,000 other than business income and assured no scrutiny for the first year as a measure to increase tax base, remains to be seen because small income earners like taxi drivers and other service providers may say like the wary fox once responded to the sick lion in Aesop's Fables - "I will not enter, because I can only see tracks going in (to the cave) but none coming out."

On the tax administration front reinforcement of RAPID announced by the Hon. PM Viz. (Revenue, Accountability, Probity, Information and Digitization) is proposed to be taken forward by increasing the thrust on e-assessments and enforcing greater accountability of officers of tax department for specific acts of commission and omission. The effect on tax administration though again like the electoral reforms depends on how well it is implemented and accepted by the bureaucracy and remains to be seen. There are no major proposals in indirect taxes with introduction of GST round the corner.

The FM has presented his budget and has done his job for the year; on our part let us hope for the best as suggested in this parting verse from Panchatantra by Vishnu Sharma:

"Yadrishee bhavana yasya siddhirbhavati taadrishee"

"Whatever one expects or imagines the outcome will be similar"

- Vishnu Kanhere