Indian Union Budget 2018-19

FM loosens purse strings – Addresses Key Constituencies – Skips urban middle class

The Hon. Finance Minister predictably did what was expected of him – cosied up to the key constituencies in a pre election full year budget. The emphasis was visibly more on agriculture/farm sector, rural economy, social security, health, SME Sector, aspiring masses and the underprivileged – but a closer look reveals that it was more packaging than substance. It as a sleek budget with an equally smooth presentation with a speech peppered with Hindi sentences and quotes.

Why the Budget speech?

This made me reflect on what is the purpose of the Budget Speech and why people watch it, industry and businesses follow it closely and people write, talk, message and tweet about it so much? On the one hand the provisions are all there in the Finance Bill, its Memorandum – the Budget at a glance and the supporting documents all of which make up the Budget Papers. Infact in a post budget discussion show, one of the participants who was complaining about some provisions not being touched upon in the speech was cut off by another saying that it was all there in the documents for everyone to see.

Well to my mind the budget speech is important because it reflects the mood, the flavor, the thoughts, the direction of the Government. It communicates much more than the documents themselves in terms of what are the priorities, what are the key/pet projects close to their heart, what is at best left buried in the documents. Looked at in this perspective Budget 2018 reveals “an iron fist in a velvet glove”

Determined Effort to Raise Taxes

All the extra allocation on agriculture, social security, health, rural economy and SME sector is being compensated and sourced through the increase in surcharge from the existing (2 + 1 = 3%) to 4% which applies to most tax payers, the 10% tax on long term capital gains on sale of shares without benefit of indexation, application of dividend distribution tax to deemed dividend, taxability of compensation in connection to business or employment, measures to widen the tax base like the Unique Entity Number of businesses and other provisions, all a part of the fine print, show a determination to garner funds from tax collections – Given the fact that it is nicely packaged with an additional sop of 25% tax rate for companies having turnover upto Rs.250 Crore, makes it – "Jor Ka Jhatka Dheere Se Lage". People are going to realize and catch on later any way, but it softens the blow, deadens the impact and prevents an immediate backlash. Public memory is short and by the time they discover that in the fine print of the budget the benefit of investing in bonds u/s 54EC is now proposed to be restricted only to long term capital gain on land and buildings or that the holding period of such bonds is proposed to be raised from three to five years or that medical insurance premium u/s 80D will be allowed only proportionately where multiple year premia are paid in the same year, will soon be forgotten and life will go on as usual

Key Themes

Hon. Finance Minister has emphasized the key themes of the budget (with the counter narrative given in brackets)

- **Governance:** Minimum Government and maximum Governance (what about big brother watching?)
- **Economy and Development:** GDP growth expected @ 8% and emphasis shifting from Ease of doing to Ease of living (one wishes to know how he is going to pull the rabbit out of the hat?)
- **Agriculture and Rural Economy:** Double farmer's incomes by 2022. (Economy Survey predicts climate change will reduce farm incomes by upto 25%)
- **Health Education and Social Protection (Security):** 1.5 lakh health and wellness centres, improve quality of Education, National Health Protection Scheme giving an insurance cover of upto Rs.5 lakhs per household for 10 crore households covering 50 crore people.(Far reaching or reaching nowhere? Look at present state of primary health centres, the quality of education in schools- will the funds translate into results?)
- **MSMEs and Employment**: Funding MSMEs & formalizing unorganized labour (not as easy as it sounds)
- **Infrastructure and Financial Sector Development:** Roads, urbanization and cheap hopping flights.(what about railways?)
- **Building Institutions and Improving public service delivery:** Recapitalizing Banks & FCI, Merging PSUs, Unique ID for every business.(Divestment is on full swing)

The themes are an extension and a grouping of the ten themes put forth in Budget 2017, which again are based on the agenda of 'Transform India proposed in Budget 2016' which outlined nine thrust areas.

Outcome Budget

Although there is nothing innovative barring the ambitious Social Security program a change for the better is seen in the accompanying documents – which give an Outcome Budget 2018. This document which is a part of the budget set gives the schemes of 68 ministries and departments presenting for each the financial outlay budgeted for 2018-19, the output and deliverables and the projected medium term outcomes for each scheme and project as a consolidated document. One would like to see an actuals column populated against all three and an analysis of the variances next year, it is then that public accountability will be truly ushered in.

Budget the Reality

This is the second year in which the distinction of plan and non plan expenditure has been done away with and figures are presented as aggregates. Non plan expenditure is actually the expenditure on staff, administration and contingencies. It is however known that this constitutes about 50% to 60% of the total expenditure. So in that context let us look at the budget 2018 and the revised budget figures (based on actuals) of 2017.

(Rs. in Crores)

	2016-17 Actuals	**2017-18 Budget**	**2017-18 Revised Budget**	**2018-19 Budget**
Revenue expenditure*	10,44,137	11,18,506	12,24,217	13,70,632
Interest Payments	4,80,714	5,23,078	5,30,843	5,75,795
Grants in Aid for creation of capital assets	1,65,733	1,95,350	1,89,245	1,95,345
Capital Expenditure	2,84,610	3,09,801	2,73,445	3,00,441
	19,75,194	**21,46,735**	**22,17,150**	**24,42,213**

*Note: This includes administration, staff and contingences which are generally about 50% to 60% of the total expenditure.

Analysed in this manner the figures tell us that the increase in the budget of 2018 over revised estimates of 2017 in terms of effective expenditure is as under:-

(Rs. in lakhs crores)

	2016-17 Actuals	**2017-18 Budget**	**2017-18 Revised estimates**	**2018-19 Budget**	**Increase**	**%**
Revenue Expenditure Net of Staff & Admin 50% of total expenditure	5.22	5.59	6.12	6.85	0.73	10.66
Grants in Aid for Capital Assets	1.66	1.95	1.89	1.95	0.06	3.08
Capital Expenditure	2.85	3.10	2.73	3.00	0.27	0.09
	9.73	**10.64**	**10.74**	**11.80**	**1.06**	**8.98%**

The total increase in budget 2018 taking all schemes, thrust areas and proposals is effectively only Rs. 1.06 lakh crore a 9% increase over last year, which after eliminating inflation at say 3% and normal growth rate at 7% leaves us with no increase at all.

A sense of déjà vu envelops this writer as well as I am sure so it does to the reader of this piece. Year on year is it the same story? The same themes, the same chopping and churning, tinkering and reallocation with a normal growth over last year.

There is a difference – outcomes have been stated, continuity of thrust has been maintained, there is thrust in key areas (though they infact coincide with key constituencies no one is complaining), more reforms including recapitalization of banks, merging and listing of PSU's and basic business reform actions are on the cards, the ambitious social security scheme though hampered by poor health facilities will ultimately benefit someone – a definite plus here.

Sore Thumb

What sticks out as a sore thumb is

Automatic Revision of MP's emoluments every five years, indexed to inflation (All men are equal, some are more equal than others)

Exceeded the disinvestment target and collected Rs.1 lakh crore (surely exiting out of undertakings if not selling national assets?)

Government will assign every enterprise in India a unique ID on the lines of Aadhaar (Big brother looms larger – may be next time will write this piece with my number, what's in a name anyway?)

We will explore the use of blockchain (and watch the world go by).

Mass formalization of SME sector and revamping system of sanctioning loans to SMEs (or what remain of them eventually)

(Nothing about adverse impact of climate change on agricultural income)

As against effective budgeted expenditure of Rs. 11.80 lakh crore the interest cost of government borrowings is Rs. 5.76 lakh crore and the administration, staff and contingencies is about Rs.6.85 lakh crore together totaling to Rs.12.61 lakh crore – Rs.0.81 lakh crore in excess of the effective expenditure.

Tax Proposal

Turning to the tax proposals though the tax rates are unchanged and the changes are not many, it would be better if tax is collected by being more upfront about it.

We see an intelligent use of the Big data collected from the tax returns analysed well to slice and carve out greater tax revenue with minimum damage in terms of number of people affected, whereas the benefits though not substantial address a wider base. (Surely a pre election year strategy is at play here).

The FM has preferred to slice away at net incomes by continuing the surcharge on income tax and increasing it from 3% to 4%. Another major hit is the 10% tax on long term capital gain on sale of listed shares, which will eventually take same sheen off the markets. On the other hand the sops to salaried class are at best a small gift in a big package –

The standard deduction of Rs. 40,000 to salaried employees comes with a downside it incorporates the exemption of transport allowance of Rs. 9,600 and the exemption for medical reimbursement of upto Rs. 15,000 thus providing an effective relief of Rs. 15,400 which translates into a saving of Rs. 4,620 in taxes even at the highest tax slab of 30%.

Senior Citizens (Oh, I am waiting to be one) get a much bigger relief with exemption on interest on Bank deposits going up to Rs. 50,000 in place of the earlier exemption of Rs.10,000 giving a relief of Rs.40,000 which translates into a tax saving of Rs.12,000.

This together with the higher limit for medical expenditure will bring some cheer to the senior citizens. (Seems to be a move to prevent flight of deposits from banks, which may actually work).

The FM is not clearly happy with the poor response to the presumptive tax scheme as revised for business and as newly introduced for professionals last year. Despite the large number of tax payers on boarded (over 50 lakh) the average tax payment is only Rs 7000 for business and Rs. 35,000 for professional per tax payer.

In the area of tax administration there are two significant changes.

The first is introduction of e-assessment which will further reduce the interaction between the department and the tax payers almost eliminating person to person contact.

The second is that the scope of adjustments that can be made in a summary assessment has been restricted. Such adjustments cannot be made on the basis of the TDS certificate or the 26AS statement that reflects TDS which is a welcome relief.

That the tax administration is becoming stringent is evident from the fact that if the return is not filed by due date deductions in respect of certain incomes will not be allowed.

There are no major proposals in indirect taxes as changes to GST rates and procedural provisions need the approval of and are being regularly brought out by the GST council

The job of presenting a budget is unenviable, for in matters of money seldom can everyone be satisfied. All the more so as the Hon. FM has been ambitious enough to speak about ‘ease of living’ for the common man.

I am reminded of the Sanskrit couplet –

‘Dhaneshu Jeevitaryeshu Strishu Chaharkarmashu

atrupt pranina sarve yata, yasyanti, yanti cha’.

‘In matters of money, desire to live, family, food and rest no one has been satisfied, some have passed away unsatisfied, some will pass away likewise and some are about to depart to the next world unsatisfied’.

One wonders is this ‘ease of living’?

– Vishnu Kanhere