INDIAN UNION BUDGET 2020 - 2021

Aspirational Budget : But Sugar & Sheen Wears Thin

As was the case last time and in years before that irrespective of political affiliations, this year too the Hon. FM began with a set of aspirations, needs and a promised agenda to fulfill.

However, given its marathon journey of over two hours forty one minutes (twenty four minutes more than last time) the flowers in the bouquet seemed to droop and the sugar and sheen of the candy and cake seemed to wear thin by the time it was painstakingly completed.

On the back of the fundamental structural reforms and inclusive growth targeted last year, industry, trade and the public were expecting this year a large dose of government expenditure to put more income in the hands of people - no doubt allocations have been proposed that are ambitious and unique in some ways but the numbers of how the Rupee comes in are so unclear and one would venture to say fudged that at the end of it as to where the money is going to come from is not clear. The only option and it is more of a default option (Pun intended) is a higher fiscal deficit way beyond the projected (3.5%) and which may actually cross the limits set under the Fiscal Responsibility regime adopted to curtail deficit. The fiscal deficit shown at 3.5% in the budget is based on an estimated assumed growth of 10% over last year's Revised Budgeted estimates (2019-20). This and the cumulative impact of the earlier years means that effectively the budgetary fiscal deficit for 2020- 2021 would far exceed these limits of 3.5% and cross 4% in reality.

Primarily there are three prominent themes in the budget. An aspirational India, economic development for all and a caring society with an emerging focus on governance, fiscal management and clean up.

Aspirational India :

Agriculture, irrigation and rural development:

A number of schemes have been combined here, but the critical issue remains as to what is the way forward for agriculture in this country which is in crying need of modernization, but not prepared to tackle the issue of idle workforce of upto 22% of India's population, which it would result in.

Wellness, water and sanitation :

This by far is the most redeeming feature of the budget, that will not only provide succor to the weaker sections, but provide water and energy the basic needs for human existence.

Education and skills is the third limb which is critical especially for the rural and the backward and gets much needed attention.

Here there is a promised “New Education Policy” that will be announced, the only fear being that it should not get buried and forgotten in the voluminous budget documents.

Industry, commerce and equipment is the next triad that addresses economic development.

Ambitious plans to make inroads into electronic manufacturing – Manufacture of mobile phones, electronic equipment and semi conductor packaging are proposed to get a boost. However here again the details would be announced later, indicative of half finished work in progress that could not meet the strict budget deadlines.

E market place and schemes for MSMEs are expected to give small and medium businesses a welcome boost.

Next comes big ticket investment plans in infrastructure of Rs. 100 Lakh crore over five years being reiterated. Artificial intelligence, internet of things (IOT), quantum computing find a larger mention as compared to the last year’s budget but anything concrete is yet to be seen.

Women and child, social welfare schemes, promoting culture and tourism and enabling the various ministries to fulfill the commitments as actions made in the Coalition for Disaster Resilient Infrastructure (CDRI) and other such agreements/ alliances internationally are other initiatives.

This is capped off by a promise of Good Governance, a promise to include tax payer charter in the tax laws and rules and reliable, robust financial sector critical to the economy that brings us to the question of where the money to fund all that is planned is going to come from.

Before looking at Part B tax proposals, there are two items towards the end of Part A of the speech the first being Disinvestment. With only a mention of government selling a part of its holding/ stake in LIC, and nothing else it is not really clear where the move to divest stake in nearly all the well performing valuable ‘navratnas’ thereby unlocking value has come unstuck.

The second item is fiscal management. As pointed out earlier it is more of a juggling of numbers by taking expected growth rate @10% for the coming year, thereby presenting a budget showing a fiscal deficit that meets conditions of FRBM, when after adjusting for current real growth rates it may eventually go well beyond 4%.

As regards the tax provisions one is reminded of the famous ‘sher’ of Mirza Ghalib that reads:

“Ishq ne ghalib nikkama kar diya

Varna ham bhi aadmi the kaam ke”

Into a slightly modified taxation version :

“fine print ne tax proposal nikkama kar diya

Varna ye bhi thee kaam ke”

It’s a case of either the left hand grabbing what the right hand has given, or a case of serious tax provisions being hidden in the fine print. Either ways it’s the way they are effectively buried in the budget documents and not openly stated which would otherwise enable discussion and views of a wider audience, that is a matter of concern.

In the tax proposals, concessional tax rate for new Electricity Generation Companies of 15%, tax concession, on foreign investments, a larger window period of 10 years (as against earlier 7 years) of tax holiday for start ups, increasing limit of threshold turnover of tax audit from Rs 1 Cr to Rs 5 Cr, concession in deduction/ benefit of affordable housing, real estate transactions, on line registration for charitable Institutions, faceless appeals on the lines of faceless assessment, a promise of a tax payer charter and instant PAN through Aadhar are some of the beneficial provisions.

In the mixed bag are the personal income tax relief and simplification of taxation which is touted to give a big relief to middle class tax payers. It is in a limited sense true, but in the case of those tax payers who currently do not have any deductions to claim. This is because opting for the scheme means that no deductions are allowed under the Income Tax Act, 1961.

After considering this by way of an example (annexure A), it becomes clear that in a typical case where full deduction under investments (80C), Mediclaim (80D), Bank interest (80TTA) as well as say interest on housing loan is availed the tax liability actually becomes more under the new scheme. Even if interest on housing loan is not claimed the tax benefit difference remains marginal. However this is likely to promote expenditure rather than savings thereby bringing in more expenditure into the market.

Continuing with the mixed bag is the abolition of dividend distribution tax, touted as a bold move by the Hon. Finance Minister. Though it does with into the 15% + Surcharge tax on corporate for distribution of dividends, the burden merely shifts to the shareholders, that too for HNIs at the full rate of 30% + Surcharge.

Thus for these shareholders it does not make any difference, and on deeper analysis may not enthuse investment in share market.

Concessional tax rate of co operatives of 22% + Surcharge and cess, again comes with the catch of not claiming any deductions and thus robs the provisions of its otherwise substantial benefit.

Modification of residency provisions making it more stringent is a provision introduced in a quiet manner and that has far reaching consequences for Non Resident Indians.

Thus the period of 182 days of visits back to India has been proposed to be reduced to 120 days in a year for an NRI coming to India on a visit. Further in case of an Indian citizen not liable to tax in any other country or territory he shall be deemed to be resident in India and taxed accordingly. As far as these provisions again, a wider consultation with NRIs who will be the most directly affected, would have been in order, before proposing the amendments.

The time has come for all of us to give this a best shot, especially as it comes amidst the gloom of an economy that needs coaxing and cajoling to grow:

“Housale buland ho our iraade nek ho to hi kamayabi milati hai”

If we move ahead on the right path and with hope of a turnaround in our hearts there lies the path to India’s growth and success… the path to a 5 trillion US Dollar inclusive vibrant economy.

Vishnu Kanhere

<u>Annexure – Computation of Tax</u>

	New Regime		**Old Regime**
If Income is Rs.	15,00,000		15,00,000
<u>Deductions</u>	Not Allowed		
80C			1,50,000
80 D			25,000,
Interest on Housing Loan			2,00,000
Net Taxable Income	**15,00,000**		**11,25,000**
Slab	**TAX**		**TAX**
Upto Rs.5 Lakhs	Nil	Upto 2.5 Lakhs	NIL
5 to 7.5 Lakhs @10%	25,000	2.5 to 5 Lakhs @5%	12,500
7.5 to 10 Lakhs @15%	37,500	5 to 10 Lakhs @20%	1,00,000
10 to 12.50 Lakhs @20%	50,000	More than 10 Lakhs@ 30%	37,500
12 to 15 Lakhs @25%	62,500		
More than 15 Lakhs @30%	-		
Total Tax	**1,75,000**		**1,50,000**